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The Education and Skills Committee

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Footnotes

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Summary

The effectiveness of increased expenditure

The Chancellor's budget book for 2004 claimed a direct relationship between the increased investment in education since 1997 and improvement in GCSE results in particular. Our evidence showed that with lower levels of investment GCSE results had improved to at least the same extent in earlier periods in the 1990s. The Government needs to take great care in making claims about the effectiveness of increased investment in education in increasing levels of achievement which the evidence cannot be proved to support. Links between expenditure and outcome remain difficult to establish.

Schools' funding

The DfES declined to undertake the survey of schools which we requested in our report last year to establish the extent of funding problems in schools in 2003–04. A survey by the Audit Commission found that there was no widespread funding crisis. This confirmed our conclusion that the DfES reacted to perceptions of crisis rather than an actual crisis.

The consequences of the problems with schools' funding in 2003–04 have been far-reaching. Given that the settlement for 2003–04 was distributed using a new funding formula, it is remarkable that within eighteen months the whole rationale for that original change, that the funding system needed to be fairer and more redistributive, has been abandoned in favour of a highly pragmatic near flat-rate system, with three year budgets being introduced in 2006. This change has led to the loss of LEAs' ability to make any executive decisions about schools' funding in their areas and will, we believe, inevitably lead to far greater involvement of the DfES in day-to-day management of the school system.

The DfES seems content to say that the formula spending share system failed, but that it does not matter to what extent and for what reasons it did not deliver the desired result. This is incredibly short-sighted. There is no proper evidential basis for saying that change is merited, and no way of being confident that the changed system will adequately address any problems that exist. For a Department that believes in evidence-based policy the DfES has remarkably little evidence to support the changes it is making.

Staff reductions

We accept the principle of the Gershon review's proposals to increase efficiency in public services and to redistribute resources to the front line. However, the 31% proposed cut in DfES staffing has clearly not been effectively worked through. It may or may not produce the strategic department that the Government wishes to see. In order for us to understand fully what is being proposed, the Department should make public both the detailed reasoning behind the headline 31% staff reduction and a comprehensive assessment of the risks in making that reduction and the ways in which they are to be managed. In particular we need to see evidence that schools' funding will in future be overseen effectively without a large new bureaucracy.

Management capabilities of the DfES

We have identified financial management and project management problems within the Department, and it clearly needs to address its methods of working in order to limit the possibility of similar problems in the future.

Further Education

Much of the education for 14–19 year olds is provided by further education colleges and the proportion is likely to increase as greater encouragement is given to vocational education and training. One of the issues that has been raised with us is the differential in funding per student between schools and further education colleges. This is particularly relevant to sixth forms. It makes no sense that a student undertaking a course at a further education college should, other things being equal, be less well funded than a student taking the same course at a local school, but progress towards equal funding is painfully slow. Greater urgency is needed. Further education colleges should not be seen as a means of providing education on the cheap.

1 Introduction

1. This report arises from the Committee's annual examination of DfES expenditure and management of resources. It is based principally on the Department's Annual Report,¹ and meetings with the Rt Hon Charles Clarke MP, Secretary of State for Education and Skills, and with Mr David Normington, Permanent Secretary, and Mr Stephen Kershaw, Director of Finance, of the Department for Education and Skills.

2. Last year in the equivalent inquiry one expenditure issue overshadowed all others: the funding of schools. This year saw a more varied picture and so in this report we comment on a range of issues about DfES expenditure on, and management of, the services within its remit. We do, however, return to the subject of schools' funding and changes that the Government intend to make to the funding system, which could have far reaching effects on schools and local authorities.

3. We are grateful for assistance with this inquiry from Tony Travers, Director of the Greater London Group at the London School of Economics.

¹ *Departmental Report 2004*, Department for Education and Skills, Cm 6202, April 2004.

2 The effectiveness of increased expenditure on education and skills

Increased expenditure since 1997

4. Public expenditure on education in the United Kingdom was equivalent to 5.5% of GDP in 2003–04, a rise from 4.7% in 1997–98. Table 1 shows education spending as a proportion of GDP for each year since 1997–98. Spending has increased as a share of the economy during a period of economic expansion, so the resources made available have increased significantly in real terms. It is worth adding that public expenditure on education and skills as a proportion of GDP was also well over 5% in the early 1990s.

Table 1
Public expenditure on education as a % of GDP, 1997-98 to 2003-04
(United Kingdom)

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Education as % of GDP	4.7	4.6	4.6	4.8	5.1	5.2	5.5

Source: *Public Expenditure Statistical Analyses 2004*, Cm 6201, Table 3.4, TSO, London

5. Another way of analysing spending is to compare changes adjusted to take account of inflation (ie in real terms). Table 2 shows real terms spending on each phase of education in each year since 1997–98.

Table 2
Education expenditure, by sub-sector, 1997-98 to 2003-04 England
£ million, in real terms

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	Change 1997-98 to 2003-04
Schools current (total)	20,583	20,973	22,460	24,431	26,723	27,608	29,763	+45%
of which								
Under-fives	1,975	2,012	2,235	2,501	3,007	3,051	3,436	+74%
Primary	7,384	7,475	7,751	8,410	9,060	9,454	10,031	+26%
Secondary	9,202	9,361	9,769	10,513	11,525	11,901	12,594	+37%
Other	2,022	2,124	2,705	3,007	3,131	3,202	3,701	+83%
Schools capital (total)	1,210	1,322	1,429	1,743	1,984	2,156	2,628	+117%
Further Education and adult	3,690	3,702	3,738	4,003	4,773	5,194	5,671	+54%
Higher education	5,074	5,022	5,330	4,948	5,181	5,345	5,589	+10%
Student support	1,526	1,536	1,346	1,379	1,176	1,527	1,058	-31%
Administration and inspection	1,336	1,526	1,011	1,057	1,213	1,449	1,592	+19%
Total	33,408	34,080	35,315	37,560	41,050	43,278	46,301	+39%

Sources: *Departmental Report 2004*, Department for Education and Skills, Cm 6202, Table 2.3, TSO, London; *Departmental Report 2003*, Department for Education and Skills, Cm 5902, Table 3.3, TSO, London.

6. Spending on each phase of education (apart from student support) has increased in real terms in the years since 1997-98. The final column of the table shows overall spending changes over the full period. Overall, schools' current spending increased by 45%, compared with 54% in further education and only 10% in higher education. Table 3 summarises spending per pupil/student data for the schools, FE and HE sectors in each year since 1997-98. Spending per pupil/student has increased fastest in schools, followed by further education. By contrast, real terms higher education spending per student has remained little changed, suggesting a continuing major relative shift of public resources away from universities towards other phases of education. Other university resources, of course, may have increased.

Table 3
Real terms funding per student/pupil, 1997-98 to 2003-04
(1997-98 = 100)

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05 plans	2005-06 plans
Schools	100	101	105	112	119	122	128	131	137
FE	100	99	106	113	122	120	120	124	126
HE	100	100	99	99	99	99	102	103	106

Sources: Departmental Report 2004, Department for Education and Skills, Cm 6202, TSO, London, Tables 2.5 (derived from figures given), 2.6 and 2.7; Departmental Report 2003, Department for Education and Skills, Cm 5902, TSO, London, Tables 3.5 and 3.8 (derived from figures given); Departmental Report 2002, Department for Education and Skills, Cm 5402, TSO, London, Table 4.7 (derived from figures given).

7. The Chancellor's 2004 Budget book included the following assertion:

"The sustained high investment in education since 1997 has resulted in a measurable improvement in standards. In particular, the proportion of 11 year olds achieving expected levels in reading and maths have risen by 12% and 11% respectively, and almost 53% of 16 year olds achieved five or more A* to C grade GCSEs in 2003, compared to 45% in 1997..."².

This section is immediately followed by a chart (Chart 6.3) which shows "Improving GCSE performance", with the percentage of pupils achieving 5 or more grades A* to C rising from about 48% in 1998-99 to 53% in 2002-03.

8. It is indeed true that performance has improved in the way shown. However, the direct link between higher expenditure and the improvement in examination performance is simply asserted. No evidence is offered to support the assertion. Table 4 below puts the relevant figures in historical context.

2 *Budget 2004 Prudence for a purpose:: A Britain of stability and strength*, HC301, HM Treasury, paragraph 6.47.

Table 4
GCSE performance and higher spending³

Four-year period	5+ GCSE Grades A* to C			Current expenditure increase (real terms)
	Year 1	Year 4	Change	
1998-99 to 2002-03	47.9	52.9	+5.0	+31.6%
1994-95 to 1998-99	43.5	47.9	+4.4	+3.4%
1990-91 to 1994-95	36.8	43.5	+6.7	+11.4%

Sources: 1990-91 to 1994-95: DfEE Departmental Report 1997, Cm 3610, Table 4.1 and Annexe Bii; 1994-95 to 1998-99: DfEE Departmental Report 2000, Cm 4602, Table 5.3 and Annex Bii; 1998-99 to 2002-03: DfES Departmental Report 2004, Cm 6202, Table 8.1 and Table 2.3

9. Table 4 looks at the change in GCSE performance and in real terms spending for the four year period immediately prior to 1998-99 to 2002-03 and then for the four year period before that. The improvement in GCSE performance was fractionally smaller in the years from 1994-95 to 1998-99 than in 1998-99 to 2002-03, though rather greater between 1990-91 and 1994-95 than in either of the later periods. However, the increase in current expenditure between 1998-99 and 2002-03 was radically greater than in either of the earlier four-year periods.

10. We asked David Normington to comment on the link between increased expenditure and increased achievement. He told us:

“I cannot prove that a given level of investment produces a given level of output...I can show what we are getting out for what we are putting in. I think one has to be given time to see the benefits of the investment; I do not think you will see it immediately. All I can demonstrate to you is, really, two things: one is how much money we have spent over time and what the improvements are, and, secondly, my economists can show you the huge returns to the economy that we get for quite small increases in performance. For instance...there is a big economic return for [improved] performance at GCSE, at A level and, of course, at university. Therefore, I am confident that this money is worth investing, but I cannot prove to you...that a given level of investment produces a given level of output. I would like to be able to do that, of course, but I cannot.”⁴

11. We put the same question to the Secretary of State, who responded in a similar way:

“My view is that higher spending and higher investment is a necessary but not a sufficient condition for education improvement and performance. It is a necessary condition because the number of teachers, non-teaching staff working in a particular school or college is a significant factor. Training of teachers, continued professional development, which costs money, is significant factor, so that teachers improve, and basics like the facilities that are in a school, the ICT that is available and so on, can

³ GCSEs were introduced in 1988

⁴ Q 151

reinforce performance, but it is not a sufficient condition because it is entirely possible to have all that but for it not to be focused properly on improving educational standards in the way that we all want to see, and any survey of different schools throughout the country will show that there are schools with similar social issues - free school meals, for example, or resources being broadly similar - which are achieving dramatically different results for their children, and that is why we have to focus on a reform agenda which tries to raise that performance and carry it through. I am not one of those who believes you simply pump in more money and that solves the problem - I do not think it does - but I do think you need more money for many of the things which obviously we see around.”⁵

12. The analysis of expenditure we have undertaken here does not disprove a link between increases in public expenditure and increases in GCSE performance. We were interested to note, however, that the Secretary of State and the Permanent Secretary were both far more circumspect about the direct link between investment in education and improvement in achievement than the Budget document. **The Government needs to take great care in making claims about the effectiveness of increased investment in education in increasing levels of achievement which the evidence cannot be proved to support.** More generally, the value-added justification for higher expenditure on education is one that has wider implications: if large rises in expenditure are needed to produce improvements in education, this could be taken to imply that services that did not enjoy such increases would not see improvements. This issue is of significant concern in the context of public sector productivity review currently being undertaken by Sir Tony Atkinson. **Links between expenditure and outcome remain difficult to establish.**

Future levels of expenditure

13. The issue of how far increased expenditure leads to improved levels of achievement is likely to be brought into sharper focus over the coming Comprehensive Spending Review period, as the period of sharp spending growth on education in England comes to an end. The next three years will see much more modest growth in spending:

“In England, education expenditure will grow by an average of 4.4% across the Spending Review period [2004-05 to 2007-08], that is by 6.0% in 2005-06, 3.8% in 2006-07 and 3.5% in 2007-08”.⁶

Such increases compare with an average real terms increase of 7.7% per annum in the period from 2000-01 to 2003-04.

14. The consequence of this slowdown in the increases in funding could be to create an impression amongst school headteachers and other budget holders that resources are being cut. One problem with schools’ funding in 2003-04 was that Ministers heralded the settlement as one of the best ever for education and many recipients thought that they were going to be given budgets in which there was considerable room for flexible extra expenditure. For a variety of reasons, which we explored last year,⁷ most of the extra money

5 Q 178

6 Departmental Report 2004, page 29.

7 Education and Skills Committee, First Report of Session 2003-04, *Public Expenditure: Schools’ Funding*, HC 112.

was accounted for by increased costs in the system and the extra flexibility and added spending power that had been anticipated did not materialise. This impression that resources are reducing rather than increasing could be exacerbated once schools begin to experience falling rolls, in the coming years, as forecast by the DfES and others, because an individual school's funding depends on numbers of pupils. It will be important for ministers to try to manage the expectations of budget holders more effectively than was the case in 2003–04.

15. Something which may help is the move to three year budgets from 2006. In June, David Normington told us:

“What you really want, you are trying to run your school and you have a longer time horizon than a one-year horizon. So I think we must all try to provide that stability even though I think it would be very difficult...the Prime Minister has said publicly that he would like to see a move to three-year budgets...and I am saying that will be very difficult to achieve but that is what we are working towards”.⁸

16. The Secretary of State told us that the aim was:

“...to try and give schools the certainty, first, that...money intended for education does come through to education, and, secondly, to ensure that each school has its own budget on a three-years basis where it can plan and develop and see where it is going...”⁹

17. This proposal was turned into a firm commitment in the DfES' *Five Year Strategy for Children and Learners*, published in July 2004:

“From 2006 we will provide guaranteed three-year budgets for every school, geared to pupil numbers, with every school also guaranteed a minimum per pupil increase every year. This will give unprecedented practical financial security and freedom to schools in their forward planning. It will be made possible by a radical reform of education finance to end the long standing confused responsibility between central and local government for setting the level of school funding”.¹⁰

We will look at the possible consequences of this change in more detail in the next section of this report.

8 Qq 44, 45

9 Q 193

10 DfES: *Five Year Strategy for Children and Learners*, Cm 6272, July 2004, p. 46, paragraph 11.

3 Schools' funding

18. Our public expenditure report last year concentrated exclusively on the issue of schools' funding. Changes were made to the funding formula used to distribute money to LEAs which were designed to make the system simpler and fairer, overall funding for schools and LEAs would rise by 6.5% and each LEA received an increase in average funding per pupil of at least 3.2%. There was therefore reason to believe that there would be a significant increase in funding for all schools, but that is not what happened. Cost pressures in the system and the effects of the new funding formula on distribution led to widely divergent patterns of funding. There was a general outcry that schools' funding was "in crisis" and that large numbers of staff, both teaching and non-teaching, would be made redundant. The Government's response was to retrench, announcing guaranteed per pupil increases in funding for all schools for 2004–05 and 2005–06. This effectively overrode the fair funding formula¹¹ and local government financing arrangements.

19. The Government has now taken this 'flat-rate' approach one stage further. In its five-year strategy,¹² it announced the establishment of three-year school budgets from 2006, with minimum guaranteed levels of funding:

"There will be a consultation beginning in the Autumn about the arrangements for the new Schools Budget, including transitional protection where local authorities have spent more than their formula allocation in the past. No authority will receive less funding for education than its current level of spending, and we will seek to ensure there are no adverse effects for the rest of local government. Funding will continue to be channelled through Local Authorities, though they will not be able to divert this spending for other purposes. Local Authorities will deliver the national guarantee of extra funding to each school each year, but will retain an important and necessary role in reflecting local needs and circumstances."¹³

20. One of the problems that we faced last year was a lack of hard evidence about what was actually happening in schools. Instead, the debate about what the real situation was progressed through a series of assertions and counter-assertions. Some efforts were made to quantify the difficulties,¹⁴ but the DfES, while it criticised the outcomes of other surveys, did not itself seek to produce hard data on the situation. It addressed all questions about the numbers of teachers and other staff whose jobs might be at risk by saying that the annual staff survey¹⁵ would provide the information necessary to make a judgement. It also said that information on spending by individual schools was collected at the end of each financial year and that this would show how many schools had deficits. We recommended a special survey of LEAs to try to quantify the problems and the causes of them. The DfES

11 Education and Skills Committee, First Report of Session 2003–04, *Public Expenditure: Schools' Funding*, HC 112.

12 DfES: *Five Year Strategy for Children and Learners*, p 47, paras 12 and 13.

13 Ibid, para 13.

14 For example the CEER report for the NUT

15 This shows numbers in post in January of any given year and is published each April.

in its response to our report said that it already collected information “which will give us a full picture of the situation”.¹⁶

21. The DfES made much of the school workforce survey, but when it appeared it did not answer many of the questions in which we were interested. There were 4,100 more full-time equivalent regular teachers in the maintained sector in 2004 compared with 2003,¹⁷ 10,000 more teaching assistants and 3,500 more administrative staff. As we said in our report on teacher retention and recruitment,¹⁸ within that overall picture we still do not have information about winners and losers; how many schools were badly affected by the problems over schools’ funding last year and how many did well. We also note that the 13,500 extra teaching assistants and administrative staff were spread over both primary and secondary sectors and some 23,000 schools.

22. It appeared to us that there was a marked reluctance on behalf of the Department to analyse in detail the causes and extent of the problems. As we said, “The danger for the DfES now is that it is attempting to remedy the problems without a full knowledge of where those problems occurred and the reasons for them.”¹⁹ The two year flat rate scheme was designed to act as a brake on further deterioration whatever a school’s financial circumstances, and seeking out the causes and extent of the problems appeared to be very much a secondary consideration.

23. The DfES does collect some information about the financial position of schools. David Normington told us that in 2003–04 the number of schools in deficit had been about 2,500.²⁰

“If you look at the pattern—I was looking at the pattern of numbers of schools with deficits over recent years—it has gone up and down around the figure 2,000. So it is sometimes 1,800, it is sometimes two and a half thousand. It is in that range.”²¹

On the DfES’s own analysis, the number of schools in deficit in 2003–04 is within the range that might be expected, though at the very top end. However, given that at least 1,800 schools would be expected to run a deficit in any given year, this is not a dramatic change.

24. In the absence of the information that we sought from the DfES, we were pleased to see the results of a study undertaken by the Audit Commission into 15 LEAs to assess what had happened to schools’ funding in 2003–04.²² One of the study’s five key findings supports our conclusion about the nature of the problems and the amount of information available to the Government:

16 Education and Skills Committee, *Public Expenditure: Schools’ Funding*, para 58; Education and Skills Committee, *Government Response to the Committee’s First Report: Public Expenditure: Schools’ Funding*, Second Special Report of Session 2003–04, HC 377, page 2.

17 *School Workforce in England, January 2004 (revised)*, Statistical First Release, DfES 23 September 2004

18 Education and Skills Committee, Fifth Report of Session 2003–04, *Secondary Education: Teacher Retention and Recruitment*, HC 1057-I.

19 Education and Skills Committee, *Public Expenditure: Schools’ Funding*, para 56.

20 Q 26

21 Q 28

22 *Education funding: The impact and effectiveness of measures to stabilise school funding*, Audit Commission, July 2004.

“There was not a widespread funding crisis in spring 2003. Government action was prompted by perception and assertion rather than accurate information. In any financial year a number of schools will face individual financial difficulties. However, in responding to significant concerns expressed by many schools and councils, the Government did not have reliable information about the state of school finances. Nowhere in the system, neither at government nor council level, is there reliable, consistent and up-to-date information about schools’ budgets and financial positions. Forecasts made in spring 2003 that there would be significant reductions in overall school balances have not been realised.”²³

25. The DfES reacted to perceptions of crisis rather than an actual widespread funding crisis, and in the solution that it has provided it has changed the nature of the funding allocation, the role of LEAs in education at the local level, and the role of the DfES. These decisions are matters of political judgment. The Government has opted for clarity and predictability in the schools’ funding system rather than traditional notions of fairness (as calculated by the FSS formula), and for national direction in the determination of funding priorities rather than local discretion. However, **given the far reaching consequences of the changes introduced for 2004–05 and beyond, it concerns us that they were taken without the DfES having a full and accurate picture of the financial situation in schools across the country.** If, for example, the figure on numbers of schools in deficit had been available earlier, the impression that an unusually large number of schools were affected could have been dispelled.

26. The Audit Commission sets out clearly how the change to national flat rates of increase in funding are inevitably broad brush and may have some unintended consequences:

“A minimum funding guarantee for schools and transitional funding for councils do not tackle areas of greatest need and represent an inefficient use of resources. Even though our study has confirmed that some schools are significantly overspending their budgets, schools in most financial difficulty are not necessarily in the one-third of councils that are to benefit from transitional funding support. Such ‘one size fits all’ measures are inconsistent with the government’s published principles of fair funding, which promote transparency, equity and consistency in the way in which schools should be funded. This approach also constrains councils from tackling funding inequalities within their areas. By specifically attempting to support schools in deficit or likely to go into deficit an unintentional message has been given to schools that working within a budget is not a priority.”²⁴

27. The decision to change to three year budgets with ring-fenced grants and minimum funding guarantees was taken quite abruptly, its announcement forming part of the five year strategy. There has so far been no consultation with local authorities on the way in which their role is to be changed (a consultation paper is promised for early 2005, some time after the legislation to introduce three year budgets has been presented to Parliament).²⁵ It puts funding for schools via LEAs on a completely different footing to all other local authority spending. LEAs in effect become agents of central Government, as

23 Ibid, page 2

24 Ibid, page 3

25 HC Deb, 13 December 2004, col 839W

with housing benefit for example. LEAs will be responsible for calculating how much each school will receive in accordance with the rules laid down by the DfES, and will have no local discretion to change that allocation. Schools' funding will no longer be paid for partly through council tax; all funding will come through a grant from central Government. This grant will cover schools' funding, channelled through local authorities. The actual amounts received by each school could still, it is expected, be topped up by councils, though this will not be a universal requirement. Some authorities already fund their schools above the level implied by the schools FSS. It is not clear whether this "overspend" will continue beyond a transitional period.

28. The Government continues to stress the importance of the role of LEAs in delivering education locally, but heavily restricts what they can do. In a speech to the National Social Services Conference in Newcastle the Secretary of State said:

"[Y]our role is not (for the most part, in my view) concerned with directly providing services. It will increasingly be about commissioning and working with and through others."²⁶

How far this change will lead to an increased role for the DfES in the distribution of funding to schools is not clear. However, if LEAs have no discretion about what they transfer to any given school, it is reasonable to assume that individual complaints about the way funding has been calculated will increasingly be addressed to the DfES as the prime mover. Over time, if this model continues in place, local authorities' role in the distribution of funding might be phased out and some new funding body for schools created. The previous Conservative Government set up the Funding Agency for Schools to oversee the funding of about 1,000 grant-maintained schools. Given the proposed new funding arrangements, coupled with the increased autonomy now promised to schools, it is hard to imagine the DfES being able to cope without a new intermediary body. The Committee would expect to be kept informed about any moves to create a new funding institution.

29. Even without such a change the DfES is going to find itself more directly involved with day-to-day issues arising from schools' funding. The effect that proposed staff reductions will have on the Department's ability to do this is an issue we discuss later in this report.

30. The consequences of the problems with schools' funding in 2003–04 have been far-reaching. Given that the settlement for 2003–04 was distributed using a new funding formula, it is remarkable that within eighteen months the whole rationale for that original change, that the funding system needed to be fairer and more redistributive, has been abandoned in favour of a highly pragmatic near flat-rate system, with three year budgets being introduced in two years' time. This change has led to the loss of LEAs' ability to make any executive decisions about schools' funding in their areas and will, we believe, inevitably lead to far greater involvement of the DfES in day-to-day management of the school system.

26 20 October 2004; see http://www.dfes.gov.uk/speeches/search_detail.cfm?ID=144

31. In our report last year we said:

“If [the Government] has a desire for a greater degree of control over schools’ funding, about which we would have serious reservations, it should provide itself with an effective means of doing so.”²⁷

The Government has gone some way towards doing that, with a much simplified system for calculating each school’s entitlement, overriding all other arrangements. Whether it has provided itself with an effective mechanism for operating that funding system remains to be seen. The new system is designed to bring stability and predictability, so that schools know what they will be receiving over a three year period. This will bring some benefits, but we have concerns about the way in which this conclusion was reached.

32. Moreover, for some schools (those with falling rolls) three-year funding settlements may mean predictable *falling* year-on-year resources, with all the local political salience that such news will generate. It is likely that the coming of three-year budgets will intensify the pressure on DfES to move towards flat-rate increases for all schools, each year. This end-point is nearly certain for small schools. The possibility of redistributing money from one area or type of school to another will disappear. Like the Barnett Formula (introduced in the late 1970s to maintain a balance of resources between different countries within the United Kingdom) the impact of the move to centralised school funding will inevitably be conservative.

33. It is clear to us that the DfES does not have adequate information even now to be able to say with certainty how many schools had problems in 2003–04 and what the various reasons were for those problems. Therefore the new system is beginning with a leap of faith that all schools will be adequately funded. As the Audit Commission noted, the transitional funding made available to help with difficulties was provided by LEA area rather than school by school, so schools with problems in areas which received no extra funding will constantly be striving to keep their heads above water. **It cannot be right to make far-reaching changes to the funding system for schools because of reported problems without quantifying those problems to see if change is merited, nor without understanding fully the nature of any failings so that the changes made can be demonstrated to address them.**

34. **The DfES seems content to say that the formula spending share system failed, but that it does not matter to what extent and for what reasons it did not deliver the desired result. This is incredibly short sighted. There is no proper evidential basis for saying that change is merited, and no way of being confident that the changed system will adequately address any problems that exist. For a Department that believes in evidence-based policy the DfES has remarkably little evidence to support the changes it is making.**

4 Staff reductions

35. The Chancellor announced in his budget statement that the DfES would be reducing its staff numbers over the coming years:

“...the Government have also decided that in the spending review all Departments will cut their administration budgets by at least 5% in real terms by 2008, and as part of his efficiency programme, the Secretary of State for Education and Skills is today announcing a 31% reduction in headquarters staff by 2008, which will enable him to direct more funds straight to schools and spend more cash per pupil in the classroom.”²⁸

36. This means that staff at the DfES would be reduced by 1,460 by April 2008, with a reduction of 850 to be achieved by April 2006. The Department says that “Work is in train to develop detailed plans for taking this forward”.²⁹ The Permanent Secretary told us:

“The Prime Minister and the Chancellor together have been setting a challenge to government departments to think about what the role of the centre of government is and how much resource needs to be spent on it and that is something they have done well before the Budget ...we have been working on this for about five or six months.”³⁰

He added that the saving on staff costs “[i]n very crude terms ...is about £70 million”.

37. We asked the Secretary of State if he thought the reduction in size of the Department would affect his role, making him less accountable for operational activities and concentrating on broad strategy. He replied:

“...I believe that one of the consequences of reducing what we do is to reduce a lot of interactions that take place which do not necessarily need to take place... Will it reduce operational responsibility for any aspect of what is happening? No, I think it will increase it because it will make it much more transparent what we are doing and we will get greater clarity... We have to say that the reduction in numbers of people is not about making them work harder but about us being more candid about what we can do and what we cannot do and sharing our responsibilities with others more effectively”.³¹

38. This theme is developed in the *Five Year Strategy*:

“The core role of the Department will be to support Ministers in providing strategic leadership to the system. That means setting the overall strategic direction and the outcomes that are being sought for children, young people and adults; developing powerful and relevant evidence-based policy; and having the capacity to engage with those in the system so that they understand and share the direction of travel... The

28 HC Deb, 17 March 2004, cols. 331–2.

29 DfES annual report, page 101.

30 Q114

31 Q 271

corollary of this is that the Department itself will do less direct management and direct service delivery. It will increasingly be the ‘system designer’, setting in place the framework of legislation, incentives, information and funding to make change happen. It will use the guiding principles of this strategy – personalisation and choice, diversity, freedom and autonomy and stronger partnerships – to underpin its work.”³²

39. It is entirely right that every organisation should review its way of working to ensure that it is operating in the most efficient manner possible and that it is clear about its purpose and functions. We asked David Normington how the reduction in staff had been determined. He said that the sequence of events had been that Departments were asked to examine their functions and come up with proposals for change, which in the case of the DfES resulted in the proposal for a 31% reduction in staff. When we asked the Permanent Secretary to confirm that the figure had come from him, he replied:

“Yes, but when the Prime Minister and the Chancellor ask you to look at your organisation with some clear objective in mind, but not a figure, you take it seriously, do you not, and that is what I did.”³³

40. He told us that the changes would come about through three main routes:

“firstly, through a major re-engineering of the system..., so fewer funding streams, fewer planning arrangements, fewer accountability systems, and fewer initiatives; secondly, sorting out some of the overlaps between us and our NDPBs...; and, thirdly, through what all organisations should do from time to time, which is purely bearing down on your costs and looking for efficiencies, particularly in your support functions and doing that by benchmarking your HR and your finance functions against external benchmarks.”³⁴

41. We received a memorandum from one of the unions with members at the DfES which was critical of the staff reductions and reorganisation. The Public and Commercial Service Union (PCS) told us that:

“...our view is the reorganisation of the DfES on the basis of large scale job cuts risks compromising the translation of public expenditure on education and skills into efficient and effective delivery of policy...PCS’ view is that the under-resourcing of the Department will result in a human cost and increased workloads as well as an increased level of inefficiency that combined will pose a high risk to the successful working of the DfES.”³⁵

42. PCS expresses particular concerns that the staff cuts have not been adequately justified and the reorganisation has not been properly explained:

“PCS has not been able to elicit any answers of substance about how the DfES will compensate for losing roughly a third of its staff: the Department has made much of

32 DfES: Five Year Strategy for Children and Learners, p 102, paras 4 and 5.

33 Q 117

34 Q 114

35 Ev 51, paras 4 and 7.

becoming more 'strategic' in how it works, but it already occupies a highly strategic role, and while PCS believes that such a role is appropriate to the Department as the lead organisation within its sector, it [is] still unclear how the organisation of work will be revised and how stopping certain DfES functions will allow the Department to take on a more strategic role.... Job cuts will not guarantee that public expenditure is used more efficiently or effectively, and we note that the Department has not, despite continual prompting by PCS, produced a risk analysis of the effect of the cuts on front line services."³⁶

43. All of this is taking place against the background of a number of Government initiatives to improve efficiency and reduce cost. The Gershon review of efficiency³⁷ was part of the process which led to the DfES announcement of reductions in staffing, and has made wide-ranging recommendations for the whole public sector, not just central Government, involving matters such as procurement, payment systems and relocation of staff away from London and the south-east. This last was also the subject a separate review by Sir Michael Lyons.³⁸

44. When we talked to the Permanent Secretary about the Lyons review and the possibility of staff relocation he told us that 70% of the staff of the Department and its NDPBs were already based outside London, and that the DfES was regarded as a department which took relocation seriously:

"I am not anticipating that there will be large numbers of departmental staff relocated in the immediate future because I cannot handle a run-down of the size that I am describing and a relocation of any significant size as well; that is just a management challenge too far really. However, a larger proportion of the jobs which I am describing will be lost will be lost in London".³⁹

45. The DfES is currently subject to a huge amount of change. It has just taken on responsibility for children's services, with new and demanding plans for co-ordination of services. As we discussed in the previous section of this report, it has implemented two changes to the funding system for schools in the last two to three years, the second of which may be regarded as work in progress, and there is clearly a continuing and expanding need for involvement by the Department in order to make sure that the system operates efficiently and effectively. **Given the school funding problems encountered in the spring of 2003, the risk to the Government of an ill-prepared or poorly-managed move to central funding could be profound.** In the midst of these changes, it is being asked to restructure for reasons of efficiency and economy to bring about savings of £70 million.

46. **We accept the principle of the Gershon review's proposals to increase efficiency in public services and to redistribute resources to the front line.** However, the 31% proposed cut in DfES staffing has clearly not been effectively worked through. It may or may not produce the strategic department that the Government wishes to see. Under the

³⁶ Ibid, para 9 and 10.

³⁷ *Releasing resources to the front line: Independent Review of Public Sector Efficiency*, Sir Peter Gershon, July 2004

³⁸ *Well placed to deliver? Shaping the Pattern of Government Service*, Sir Michael Lyons, March 2004

³⁹ Q 131

Gershon proposals there is an overall requirement to deliver £4.35 billion worth of efficiencies within the DfES by 2007–08. Overwhelmingly, efficiencies will have to be found within schools. The process of delivering such major efficiencies will inevitably need some central oversight. There is a risk that ill-thought-through changes to the DfES administration—especially during a period when schools’ funding is to be decoupled from local government—could simply lead to demands for the creation of a new arms-length regulator, which would negate the Gershon efficiencies

47. It would be instructive to have greater insight into the process that resulted in a staff reduction of 31% being considered achievable. What analysis of the functions of the Department was undertaken? What assessment of future workload? Was a risk assessment undertaken once the plan was worked out in order to see where the problems lay and whether the Department could cope with them? **In order for us to understand fully what is being proposed, the Department should make public both the detailed reasoning behind the headline 31% staff reduction and a comprehensive assessment of the risks in making that reduction and the ways in which they are to be managed. In particular, the Committee needs to have evidence that schools’ funding will in future be overseen effectively without a large new bureaucracy.**

5 Financial management capabilities of the DfES

48. There have been a number of events over the course of this Parliament which have led us to consider whether there is a particular weakness within the DfES over financial and project management. For example, there were serious problems with Independent Learning Accounts (ILAs), which were ended because of much higher take-up (and thus higher expenditure) than anticipated and because of suspected fraud. Another example was the change in the schools' funding system which, as we discussed earlier, had unforeseen consequences and gave rise to suggestions that the whole schools system had serious financial problems. There have also been difficulties with the UK e-university which led to its closure. With this background in mind, in this section we look in particular at underspending by the Department and at outsourcing.

Underspending

49. In each of the years 2000–01, 2001–02 and 2002–03 the Department underspent its budget, although at a declining rate. The table below shows the underspends on individual programmes in each of the Requests for Resources (RfRs) in the DfES' resource accounts for 2002–03. As can be seen, some programmes were significantly underspent.

Table 5
DfES underspends 2002-03: selected programmes

2002-03 RfR1	£m	Net Total Outturn	Estimate	Variation	Variation %
B Childcare		161	184	23	-13%
C Support for Young People		527	593	66	-11%
D Higher Education		119	156	37	-24%
E Further Education, Adult Learning and Lifelong Skills		295	477	182	-38%
J Higher Education Fees and Awards through LEAs		89	73	-16	22%
K Education Maintenance Allowances		122	186	64	-34%
M Cost of Capital, Depreciation and Provisions		-2	14	16	-114%
2002-03 RfR2					
A Sure Start Administration and Current Grants		184	286	102	-36%
C Sure Start Capital Grants		31	163	132	-81%
2002-03 RfR3					
Children's Fund		140	150	10	-7%

Source: Department for Education and Skills Resource Accounts for 2002–03, HC 188, Session 2002–03, p 42.

50. We asked about the pattern of underspending. Mr Normington explained that the DfES was working increasingly on three year budgets which meant that “it makes no sense to focus on the artificial point of the end of March each year”.⁴⁰ He argued that the DfES actually performed well on underspending:

“...in this year which has just finished we will be within about 2% of our budget which, on a budget of £27 billion, is pretty good actually, but it still turns out to be £500 million. If you look at aggregate sums, £500 million really is quite a big underspend, but it is 2% of the total budget and most organisations would be quite proud to be within that range. The issue is whether that money is lost. No, it is not. It gets profiled over a three-year period and in terms of helping with the school budget position, we have actually used some of that projected underspend to underpin what we are doing to stabilise school budgets over the next two years, so that is how we manage resource over that three years.”⁴¹

51. Stephen Kershaw, Director of Finance at the DfES, pointed out another reason for underspends:

“[I]f there is one thing worse than underspending...it is overspending, so there is in a way a natural level of underspend...one way around that is precisely that we have to reduce the number of individual budgets because if everybody underspends a little on lots and lots and lots of budgets, that is what produces the big numbers which we are criticised for.”⁴²

He said that the aim was to help officials in the Department “to manage bigger clusters of budgets themselves in a much more intelligent way and do their own yearly reshuffling of money to the top priorities.”⁴³

Outsourcing

52. On outsourcing, we asked the Permanent Secretary about the roll-out of Educational Maintenance Allowances and the lessons that had been learned from ILAs in introducing such projects. He said:

“...we have been trying very systematically to learn the lessons from Individual Learning Accounts where that is appropriate and moving across to Educational Maintenance Allowances, and we have a very tightly run project for implementing education maintenance allowances which I personally have been keeping a close eye on...[there is] a much better risk assessment in the Department, which says: what are the big risks to us? And clearly the implementation of a system like this is a risk involving quite a big IT system as well, and we have learnt that we need to plan that properly, that you need to get your sequencing right, that you need to work effectively with your private sector partners much better than we did on ILAs.”⁴⁴

40 Q 79

41 ibid

42 Q 91

43 ibid

44 Qq 69–70

53. When we asked who was the private sector partner providing IT services, Mr Normington told us that it was Capita.⁴⁵ This caused us some surprise, as Capita had been involved in the ILA project and there had been criticism of Capita's role in its failure, but Mr Normington defended their track record and the decision to use them again:

"I do not like to contract with anyone who, I think, puts us at risk and we took the judgment that Capita were not going to put us at risk in the Educational Maintenance Allowances."⁴⁶

54. Capita also responded to our questioning of their involvement:

"Capita responded to the invitation to tender issued by the Department for Education and Skills for a partner to provide the national Assessment and Payment Body (APB) service in support of the Education Maintenance Allowance (EMA) scheme. In bidding for a contract of this nature Capita undertakes a very robust process to ensure that the opportunity is compatible with the Company's capacity, competencies and experience; to test the commitment and capacity of the client and the achievability of its requirements; to ensure the commercial viability of the potential contract; and to test whether Capita can add value to the programme. In the case of the EMA APB Capita was, and is, of the opinion that this was an appropriate opportunity to bid and that the requirements are consistent with Capita's strengths. Capita was selected by the DfES through a robust and competitive process."⁴⁷

Review of schools' funding

55. We asked the Secretary of State about what reviews had been undertaken in the Department following on from the schools' funding problems. He said that "a tremendous amount" had happened:

"...I am more proud of what has been achieved in relation to schools finance and LEA finance than I am of any other single area that we have achieved. We have made a significant step forward in the quality of our management arrangements... I receive, personally, a report every week on the latest state of affairs of what is coming through, for the obvious reason...that politically I felt vulnerable on the whole question of school funding and I wanted to make sure we had it working completely in a better way. I think we have made progress for that reason."⁴⁸

Conclusions

56. There are a number of issues here to do with the operation of the DfES in general. Certainly mistakes have been made. **In the case of ILAs, the objective of expanding training was given such a high priority that the caution normally associated with Government policy implementation was completely overlooked. With schools'**

45 Q 71

46 Q 75

47 Letter from Capita 4 August 2004 (Ev 54)

48 Q 247

funding, although we may never have a clear picture of the extent of the problems, one difficulty was the way in which the settlement for 2003–04 was presented by Ministers, leading all schools to expect large sums of extra disposable income which in many cases did not materialise. The lessons here for the Department are clear: always have a rigorous risk assessment, and do not oversell a policy particularly where, as with schools’ funding, accurate forecasts of the outcome are not available.

57. Government Departments have an unimpressive record generally with projects involving IT procurement. They are often poor clients, lacking the necessary skills to ensure projects run as they should. The National Audit Office and the Office of Government Commerce have compiled a list of common causes of failure in IT-enabled projects across Government and the DfES has clearly not been immune from them. The causes are:

- “1 Lack of clear link between the project and the organisation's key strategic priorities including agreed measures of success.
- 2 Lack of clear senior management and Ministerial ownership and leadership.
- 3 Lack of effective engagement with stakeholders.
- 4 Lack of skills and proven approach to project management and risk management.
- 5 Lack of understanding of and contact with the supply industry at senior levels in the organisation.
- 6 Evaluation of proposals driven by initial price rather than long-term value for money (especially securing delivery of business benefits).
- 7 Too little attention to breaking development and implementation into manageable steps.
- 8 Inadequate resources and skills to deliver the total delivery portfolio.”⁴⁹

58. Not all the difficulties for the DfES are of its own making. The Department cannot offload all the risk of a venture onto its private sector partner. If the work done by a private sector partner is flawed, it cannot just be written off, because the Department has a duty to discharge its responsibilities in all circumstances. Ultimately, if anything goes wrong the Department will have to pick up the pieces. As the argument for using the private sector to undertake particular projects generally includes an expectation of “risk transfer”, the apparent difficulty of transferring risk away from the Department points to a long-term difficulty in the particular use of contractors to deliver major initiatives.

59. This helps to explain why there appears to be little competition in providing services to the Department. If the risk is never completely transferred, then the tender will demand a large number of quality standards and safeguards which only a very few companies are likely to be able to provide. So Capita won the tender for ILA computer system, it runs the Teachers’ Pension Scheme, it won the tender for the EMAs computer system and, most

⁴⁹ *Improving IT Procurement*, Report by the Comptroller and Auditor General, HC 877, Session 2003–04, 5 November 2004, page 4.

recently, it won the tender for the Primary and Key Stage 3 strategies. The press notice announcing the award of this last contract was at pains to stress the rigorousness and impartiality of the tendering process.⁵⁰ There is no reason to doubt this, but, as David Normington told us, “[Capita is] very, very big in the education world”,⁵¹ and in these matters the size of a company and the resources it can bring to bear are crucial. Nor is this a criticism of Capita. Given the way in which these processes work, there will always be a company which fills the role that currently Capita fills with the DfES. In short, there is little real “market” here.

60. The Department does appear to have learnt some lessons from recent events. It has recognised the need for comprehensive risk assessments on major projects, it has taken steps to monitor more closely the flow of funds to schools and it has instituted a funding system for schools which above all other considerations is predictable.

61. All of this has meant a greater central control of certain functions, and it is at this point that several of the Government’s policies can be seen to have conflicting objectives. Funding for schools is decided centrally with LEAs acting as agents of the Department with no say in the manner of distribution; monitoring of spending is being undertaken centrally; responsibility for management and coordination of children’s services across England has been given to the department. And yet it is at this time that the DfES, along with the rest of the public sector, is being asked to make considerable efficiency savings: 1460 fewer staff by 2007–08, 800 more staff relocated outside London by 2010, and a total of £4.35 billion in annual efficiency savings by 2007–08.

62. Virtually the whole of the public sector will be in transition over the next five years as the Gershon proposals are implemented, and the Government will no doubt argue that the DfES along with other organisations has to contribute to the success of those changes. At the same time the DfES will be implementing the wide-ranging policy changes that we have discussed in this report across all schools and all children’s services. We have identified financial management and project management problems that have occurred within the Department, and it clearly needs to address its methods of working in order to limit the possibility of similar problems in the future.

50 *Capita awarded the National Strategies contract*, DfES press notice 30 September 2004.

51 Q 72

6 Further Education

Disparities in funding

63. During the year we have been looking at skills training and in particular 14–19 education. We shall be reporting on 14–19 education separately, but a general issue arises which we wish to address here.

64. Much of the education for 14–19 year olds is provided by Further Education colleges and the proportion is likely to increase as greater encouragement is given to vocational education and training. One of the issues that has concerned witnesses, particularly for the colleges sector, is the differential in funding per student between schools and further education colleges. This is particularly relevant to sixth forms, as the Association of Colleges told us:

“There is a 5% difference in LSC funding rates for schools and colleges in 2003–4. In addition, colleges bear some costs which are picked up by local education authorities in the case of schools. The AoC estimate that the total funding gap between the two sectors for the same work is 10%.”

It also argued that the schools’ funding settlement for 2004–05 which guarantees increases in funding levels “perpetuates a situation in which a disproportionate amount of government money is being targeted on institutions serving better qualified and better off young people”.⁵²

65. David Normington told us:

“The Government are seeking to narrow the differential of sixth-formers between FE colleges and school sixth forms, but it is happening very slowly, though it is happening slightly. For instance, the Government funded the increase per pupil for each qualification attained which was 4.5% in colleges last year and 3% in schools and that was an attempt to narrow the gap slightly... when the Learning and Skills Council took over school sixth-form funding, some guarantees were in place that they would not lose any money in real terms and, therefore, this has to be a slow process because actually the Government’s commitment is to bring all the funding of FE students up to the same level as school sixth-form students and that is a costly business and it will take time to achieve, it will take some considerable time.”⁵³

66. We also asked about the different approaches to capital investment in the schools and college sectors, with schools benefiting from the *Building Schools for the Future* programme, which is not replicated for colleges. Mr Normington answered:

“This is simply a question of government priorities; the Government decided to prioritise schools and decided to put the bulk of its resources into schools. I do not

52 Memorandum from the Association of Colleges, 14–19 Ed memo 41. para 31.

53 Q 138

think there is anything more than that, really, although it is putting capital investment into colleges now.”⁵⁴

67. The Secretary of State said that it had been a manifesto commitment to narrow the funding gap but that the Government would do that “in a very steady way”. He added that one of the problems was the different ways in which teachers in different education sectors were treated:

“..how we can develop an approach to teachers and the profession of teaching more generally is an important consideration for us at the moment. One of the consequences of being able to do that would be to have more consistent financing regimes.”⁵⁵

Standards in further education

68. Another issue for the further education sector is the poor performance of some colleges. In the section of the Departmental Report on “Raising Quality and Participation in Post-16 Learning” it is stated that in colleges and other FE institutions: “16% of providers are below the floor target for long qualifications”; “12% of providers are below the floor target for short qualifications”; and “24% of providers are below the floor target for either long or short qualifications”. For work-based learning providers, performance is significantly worse. New floor and improvement targets have been introduced from September 2004 “to ensure that all education and training is brought up to an acceptable standard.”⁵⁶ On the positive side, student satisfaction surveys indicate that over 90% of students are highly satisfied with their course.

69. These relatively disappointing outcomes in further education are particularly surprising in the light of the significant expenditure increases shown in Tables 2 and 3 above. Although funding per student in FE has not risen as fast as in schools – because of rising student numbers – there has nevertheless been a significant rise in spending (both overall and per student) since 1998-99. The total amount spent on FE in that period has risen by 53.2% (from £3.7 billion to £5.67 billion) and the real terms increase per student is 27% (36% for school pupils). We also note the figures in Table 5 above on underspends, which show that in 2002–03, the budget for Further Education, Adult Education and Lifelong Learning was underspent by 38%.

70. The Secretary of State said that there were real concerns about the deficiencies reported on by Ofsted and ALI:

“...the results are not as good as the colleges themselves would have wished. Now, of course, it is perfectly right to have satisfaction as an element in all of this but I think you cannot beat the Ofsted regime to try and understand what is really happening in colleges as elsewhere. We are not inventing the Ofsted assessments, they are making assessments, the ALI is making assessments, as they rightly should, and I think most

54 Q 143

55 Q 289

56 *Departmental Report 2004*, Department for Education and Skills, Cm 6202, page 74.

of the colleges would say that those assessments indicate there is still a great deal of work to be done to get the standards up to those that we want.”⁵⁷

71. There are a number of challenges here for the DfES. In order to be successful in the implementation of its plans for 14-19 education, it needs a strong FE sector. It is clear from the evidence presented in the Department’s report that while some colleges may perform well, others are struggling. Funding overall for colleges has increased by 53% since 1998-99, in a period when student numbers have increased by 13%.⁵⁸ This is a substantial increase, but funding for schools has grown at a faster rate.

72. The funding issue cannot be divorced from the quality issues. As we said at the beginning of this report, increased funding by itself will not lead to improved achievement. However, increased investment will help to address the issues concerning teachers that the Secretary of State referred to. Better pay for teachers, and improvements in teacher training for FE, which have recently been put forward by the Government, should also help to address these problems of poor achievement.

73. There is an issue of equity here. **It makes no sense that a student undertaking a course at a Further Education college should, other things being equal, be less well funded than a student taking the same course at a local school. The Secretary of State appears to recognise that truth, but progress towards equal funding is painfully slow. Greater urgency is needed. Further Education colleges should not be seen as a means of providing education on the cheap.**

57 Q 290

58 998,000 to 1,132,000: *Departmental Report 2004*, Annex L, page 127.

Conclusions and recommendations

The effectiveness of increased expenditure on education and skills

1. The Government needs to take great care in making claims about the effectiveness of increased investment in education in increasing levels of achievement which the evidence cannot be proved to support. (Paragraph 12)
2. Links between expenditure and outcome remain difficult to establish. (Paragraph 12)

Schools' funding

3. The DfES reacted to perceptions of crisis rather than an actual widespread funding crisis, and in the solution that it has provided it has changed the nature of the funding allocation, the role of LEAs in education at the local level, and the role of the DFES. (Paragraph 25)
4. Given the far reaching consequences of the changes introduced for 2004–05 and beyond, it concerns us that they were taken without the DfES having a full and accurate picture of the financial situation in schools across the country. (Paragraph 25)
5. The consequences of the problems with schools' funding in 2003–04 have been far-reaching. Given that the settlement for 2003–04 was distributed using a new funding formula, it is remarkable that within eighteen months the whole rationale for that original change, that the funding system needed to be fairer and more redistributive, has been abandoned in favour of a highly pragmatic near flat-rate system, with three year budgets being introduced in two years' time. This change has led to the loss of LEAs' ability to make any executive decisions about schools' funding in their areas and will, we believe, inevitably lead to far greater involvement of the DfES in day-to-day management of the school system. (Paragraph 30)
6. It cannot be right to make far-reaching changes to the funding system for schools because of reported problems without quantifying those problems to see if change is merited, nor without understanding fully the nature of any failings so that the changes made can be demonstrated to address them. (Paragraph 33)
7. The DfES seems content to say that the formula spending share system failed, but that it does not matter to what extent and for what reasons it did not deliver the desired result. This is incredibly short sighted. There is no proper evidential basis for saying that change is merited, and no way of being confident that the changed system will adequately address any problems that exist. For a Department that believes in evidence-based policy the DfES has remarkably little evidence to support the changes it is making. (Paragraph 34)

Staff reductions

8. Given the school funding problems encountered in the spring of 2003, the risk to the Government of an ill-prepared or poorly-managed move to central funding could be profound. (Paragraph 45)
9. We accept the principle of the Gershon review's proposals to increase efficiency in public services and to redistribute resources to the front line. (Paragraph 46)
10. In order for us to understand fully what is being proposed, the Department should make public both the detailed reasoning behind the headline 31% staff reduction and a comprehensive assessment of the risks in making that reduction and the ways in which they are to be managed. In particular, the Committee needs to have evidence that schools' funding will in future be overseen effectively without a large new bureaucracy. (Paragraph 47)

Financial management capabilities of the DfES

11. In the case of ILAs, the objective of expanding training was given such a high priority that the caution normally associated with Government policy implementation was completely overlooked. With schools' funding, although we may never have a clear picture of the extent of the problems, one difficulty was the way in which the settlement for 2003–04 was presented by Ministers, leading all schools to expect large sums of extra disposable income which in many cases did not materialise. The lessons here for the Department are clear: always have a rigorous risk assessment, and do not oversell a policy particularly where, as with schools' funding, accurate forecasts of the outcome are not available. (Paragraph 56)
12. Virtually the whole of the public sector will be in transition over the next five years as the Gershon proposals are implemented, and the Government will no doubt argue that the DfES along with other organisations has to contribute to the success of those changes. At the same time the DfES will be implementing the wide-ranging policy changes that we have discussed in this report across all schools and all children's services. We have identified financial management and project management problems that have occurred within the Department, and it clearly needs to address its methods of working in order to limit the possibility of similar problems in the future.

Further education

13. It makes no sense that a student undertaking a course at a Further Education college should, other things being equal, be less well funded than a student taking the same course at a local school. The Secretary of State appears to recognise that truth, but progress towards equal funding is painfully slow. Greater urgency is needed. Further Education colleges should not be seen as a means of providing education on the cheap. (Paragraph 73)

Formal minutes

Wednesday 15 December 2004

Members present:

Mr Barry Sheerman, in the Chair

Valerie Davey

Nick Gibb

Paul Holmes

Mr Andrew Turner

The Committee deliberated.

Draft Report (Public Expenditure on Education and Skills), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 73 read and agreed to.

Summary agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select committees (reports)) be applied to the Report.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned until Monday 20 December 2004 at 3.30 pm]

Witnesses

Wednesday 16 June 2004

Page

Mr David Normington, Permanent Secretary and **Mr Stephen Kershaw**,
Director of Finance, Department for Education and Skills.

Ev 1

Wednesday 7 July 2004

Rt Hon Charles Clarke, a Member of the House, Secretary of State for Education
and Skills.

Ev 24

List of written evidence

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Oral evidence

Taken before the Education and Skills Committee

on Wednesday 16 June 2004

Members present:

Mr Barry Sheerman, in the Chair

Mr David Chaytor
Valerie Davey
Jeff Ennis
Mr Nick Gibb

Paul Holmes
Jonathan Shaw
Mr Andrew Turner

Witnesses: Mr David Normington, Permanent Secretary and Mr Stephen Kershaw, Director of Finance, Department for Education and Skills, examined.

Q1 Chairman: Can I welcome David Normington and Stephen Kershaw to the proceedings of the Committee. David, of course, is Permanent Secretary to the Department and Stephen the Director of Finance. I am sure that the radio this morning did not reflect the views of either David Normington or Stephen Kershaw when they said they were coming in for their annual grilling! I know that the Department regards these sessions with the Committee with total pleasure and anticipation. Indeed, I have heard suggestions that you would like to come three or four times a year!

Mr Normington: I am at your disposal, of course.

Q2 Chairman: But it is a pleasure to have you here. David, would you like to say anything in terms of introductory remarks, or do you want to get straight into the questioning? You can have it either way.

Mr Normington: I think we should get into the questioning really. I am just reflecting that we are in a rather different position from when I was here last year when we talked all the time about school funding. I guess you will want to come back to that, but we have in this year managed to stabilise that position and I have got quite a lot of other things underway, including improving performance, and we are beginning a major restructuring of the Department absorbing new functions on children and young people, so it has been a very busy year.

Q3 Chairman: Thank you for that. One of the things that does worry us as a committee when we look at the overall performance of the Department is what one of our members, one of our team has described as "Groundhog Day". I know that is an American expression, but I think everyone now knows what it means: the feeling that we have done this before and the Department is going to do it again. We will be coming to Individual Learning Accounts a little later in our questioning in some detail, but we now have the e-University that seems to have run into severe difficulties again at considerable expense to the taxpayer. I think one estimation was: here is the university, it has only ever got a very small number of students, it seems to have limped on for such long time, a considerable amount of the tax payers'

money and each course costing on average £44,000. That does sound a bit like Individual Learning Accounts, does it not?

Mr Normington: It is nothing like Individual Learning Accounts, in the sense that Individual Learning Accounts was about the public purse being defrauded. That is not the case in this case. It is also the case that the plug has been pulled on e-Universities relatively quickly. As soon as HEFCEE, who is of course managing this, saw that it was not succeeding, they have pulled the plug on it, but it is not a particularly good story. At the risk of sounding complacent, if you are trying to do a lot of things and spending £60 billion of public money, 30 billion ours and 30 billion through local authorities, I think there will be some problems. I cannot guarantee that there will not be problems in that last ray of spending, but I am not pleased about any of them and this one is one that is on the agenda at the moment.

Q4 Chairman: But you remember when we did our inquiry into Individual Learning Accounts. It was not just about the defrauding of the programme; indeed, we were promised by you and other ministers that money was going to be retrieved and people were going to go to prison. We have not seen any sign the last time I pushed the present Minister on this of any money coming back or anyone in prison. Our report was really about the competence of the Department in a ranging programme, especially a public/private partnership programme; it was not just about the defrauding, was it?

Mr Normington: No, that is true. It was about the competence of the Department, and we put our hands up and said there were lots of things we did wrong. We are still pursuing it, by the way. I recall that there were just about 100 people charged, 108 providers still being investigated and 193, I think, something like that, charged and some people found guilty. I can provide you with those figures in detail if you want, but it is a very prolonged process of prosecution, which is very frustrating, nevertheless that is being pursued. We have not given up on it. We

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are not recovering large amounts of money; that is true. We are recovering some, but it is small amounts.

Q5 Chairman: But the e-University commenced when?

Mr Normington: It was announced in 2000. It was a three-year commitment commencing in 2001 for a three-year period. Money was committed over that three-year period, and it was money for something that was quite risky. It was something which we did not think would get off the ground without Government investing money; it was an attempt to help the universities market on-line their degrees to overseas students; and it was quite a risky business; and it did not work. I think we know that now, but, of course, when we embarked on it, we did not know that it would not work. It was a genuine attempt to improve the competitiveness of UK universities and, until you get to the point where you have tried to prove the concept and see whether it is working, you do not know whether it is going to work. At the two-year point, when this review was held at HEFCE'S instigation, it began to be clear that those targets were not going to be hit and that the concept was not going to get off the ground.

Q6 Chairman: But it ran its full three years, even though very few people were signing up for the courses. Your thoughts? As you started your answer you said you pulled the plug on it only after three years, and, if you take a comparison, it seemed to arrive in the whole enthusiasm, the bubble for on-line courses and on-line businesses. They very quickly went to the wall, did they not? If they were not successful in the commercial world, shareholders lost their money, but it happened quite quickly. This seems to be a very prolonged agony over three years?

Mr Normington: I know you are going to have Howard Newby here and you will get a more detailed account of this.

Q7 Chairman: We will be?

Mr Normington: My understanding is that in the first two years it was necessary to build the IT platform, and that was where the investment had to be made. It was always the case that the target of 5,000 courses was going to be met in the third year, once the IT platform was in place, so we did not know until the third year whether it was actually going to take off, and the return on the public investment was going to be subsequent to that. It was the case that this was up-front public investment to build the infrastructure to make this possible, so we did not know until the third year that the concept was not going to work.

Q8 Chairman: Why did it not come out of the Department direct rather than HEFCE?

Mr Normington: Because HEFCE is our vehicle for funding universities. We do not fund universities directly from the Department, we do it through an arm's length body.

Q9 Chairman: It is giving us a bit of concern. We are going to be looking at the commitment to cut the Department, or the staff, by a third, and we have seen the recent articles in the newspapers on this, but some of us wonder: here is the Department with this ambitious target to cut by a third, but, of course, you have all sorts of ways of transferring activity elsewhere, do you not. If you go through the acronyms, you have HEFCE, which is a way of delivering departmental programmes, you have Ofsted. Ofsted is now what? How many people work in Ofsted?

Mr Normington: I think it is about two, two and a half thousand. I think it is of that number.

Q10 Chairman: I think the last time they were going over the three thousand?

Mr Normington: They have taken on a lot of the children's responsibilities. That may have pushed them above, but I thought it was two to two and a half.

Q11 Chairman: But substantial: over half the size of your Department?

Mr Normington: Yes.

Q12 Chairman: Then we have ALI, the Adult Learning Inspectorate?

Mr Normington: Yes.

Q13 Chairman: We have the QCA, we have the Learning and Skills Council. I have to say, on the bus in I was noting a few of the acronyms: QCA, NAA, the LSC, Ofsted, HEFCE, the TTA, the ALI. We could add to them. No-one is going to be fooled if all you are doing all the time is saying, "Look, we have got less people over in the headquarters, but everybody knows that they are scattered in different departments." That is going to fool no-one, is it? Is that what is going to happen?

Mr Normington: No, because we are bearing down on the budgets, the administration budgets of those bodies as well, and to be absolutely clear, there will be some marginal adjustments between the work of the Department and its bodies. There is some overlap now. We have been quite actively shadowing the Learning and Skills Council and we will stop doing that to that degree because they are now a body that has been in place for a number of years, but we are looking for 15% reductions in the administration costs of all those bodies taken as a whole. So they will not be able to increase their staff to compensate for our reductions because this is about trying to reduce the overall overhead which we and all those bodies represent on the system. I think that is an important thing to do.

Chairman: Right. I think we have limbered up with a couple of easy questions, so we will now get started on the serious stuff from school funding. I think Andrew wanted to start?

Q14 Mr Turner: May I follow up on the question you have asked about the e-University? It has nothing to do with the EU, I understand! Could you just tell us: when was the decision taken to invest this

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money in constructing the platform? Was a business plan prepared which saw a return on that investment over whatever period of time?

Mr Normington: I believe so, yes, but the sequence of events is that the Government decided that it wanted to develop the e-Universities idea in, I understand, 2000, and I think it was announced by David Blunkett. It then asked the Higher Education Funding Council to set up the vehicle to make that possible. It was done through a private company which was set up to run it, and that company did, I understand, have a proper business plan which showed how it would get the returns on the public investment that was being made. Forgive me, this is quite properly being done at arm's length from me, so I know that much but I do not know all the details because the responsibility in terms of ensuring the funding is properly used was with the Higher Education Funding Council. I am not trying to push it off, but that is a fact.

Q15 Mr Turner: No, I realise that, but when the Chairman says the shareholders lost their money in respect of some other IT companies, what we are saying is the taxpayer lost his money?

Mr Normington: Yes.

Q16 Mr Turner: By which date was it anticipated that he would get a return on his investment?

Mr Normington: It was a three-year commitment of public money, the money committed over three years ending this spring, with the expectation that the main return would come after that—in other words, that would be the public investment which would ensure that the concept was in effect and proved and the thing was working—and there was an assumption that this would be so attractive (and this was in the business plan) that the private sector would want to invest in it.

Q17 Mr Turner: But the private company, which I assume was not a real private company, it was a private company funded entirely by government?

Mr Normington: It was at that stage, yes.

Q18 Mr Turner: HEFCE was told by the Government what product it had to produce before drawing up a business plan which concluded there was a market for that product; is that correct?

Mr Normington: I guess, in sequential terms, that was true. There would be quite a lot of debate going on about what precisely the nature of the investment was, but, yes.

Q19 Mr Turner: But that is absolutely bonkers. No sensible private company, surely, would start by deciding what product it wants to use and spending a huge amount of money and only then trying to work out whether its business plan can sell that product, whether there is a market for that product?

Mr Normington: I would have to go back to the events of 2000. There was quite a lot of work done to develop the idea before it was decided to go ahead with it. Of course, it was not just decided it was a nice idea and we would invest 60 million in it. There was a

lot of work done at that time, including on what the delivery model might be. However, what was being particularly looked at there was the nature of the problem we were trying to solve and the outcomes we were trying to achieve and what seemed like the best approach to delivering it; but, of course, the business plan, the detailed business plan, had to follow from that.

Q20 Mr Turner: So it was actually the Department that advised ministers that this was a reasonable aspiration to spend public money?

Mr Normington: The Department with the Funding Council advised ministers, yes.

Q21 Mr Turner: Thank you very much. We can see the result for ourselves. Moving on to schools' funding, could you remind us, please, of the milestones which led up to what was called the funding crisis last year when, for instance, the ODPM made its decision about changing funding for local authorities, when ministers made the decision about passporting, when ministers made decisions about the standards, and how those milestones have moved, where they have moved, with the result that there has not been a funding crisis this year?

Mr Normington: I am not going to get all the dates right. What we have been trying to do this year, compared with the previous year, is to bring all the decisions forward by about two months, if possible, and 29 October last year was the point at which we were able to provide most of the detail about the education budgets for 2004–05, albeit that was then followed by the local government settlement some weeks later, but the whole process was brought forward by six to eight weeks.

Q22 Mr Turner: So every school should have known its full funding allocation by 31 March this year?

Mr Normington: If the local authorities had made that possible, yes, but it is in the hands of the local authority then to set the local budgets and to allocate the money, albeit within quite a tight framework which we had set, which included floors and ceilings.

Q23 Mr Turner: Do you know how many schools' did have that knowledge?

Mr Normington: No, I do not, but a lot more than the previous year when they went on not knowing about it until well into July.

Q24 Mr Turner: Finally on this subject of schools funding, do you think there is a causal link between the amount of money that is spent and, for example, the GCSE results?

Chairman: Andrew, I am sorry, will you hold that question to David Normington. That is a section which we will be covering. I really think it pre-empts other people's opportunity of questioning. Could you stay on school funding *per se*?

Mr Turner: In that case I have finished.

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Q25 Jonathan Shaw: The Government has introduced a sustainability fund, a transitional grant—

Mr Normington: Yes.

Q26 Jonathan Shaw:—to ensure that school deficits are cleared by 2006. Why 2006? What is the thinking behind that?

Mr Normington: Simply that we do not think it is going to be possible for every school deficit to be wiped out in one year. This is about trying to do it over a two-year period and to provide the transitional support over that two-year period. I do not know the precise number of schools with deficits at this moment, but the last information we had, which was at the point before they entered this problem, ie the end of March 2003, about two and a half thousand schools had deficits.

Q27 Jonathan Shaw: Could some head teachers be forgiven for being rather irritated that some schools are getting bailed out when they have managed their budgets sufficiently? You might have two schools with a very similar catchment, the same numbers, et cetera: head teacher A has managed his budget well, head teacher B, it is questionable whether they have managed the budget well and a set of similar circumstances?

Mr Normington: Yes. Of course it can be very irritating indeed to a school that has managed its budget well to find that happening, and that is why in the £120 million transitional relief we are providing we are making it a condition that those schools with deficits have to have a plan for sorting them out. Yes, it looks like a reward, but it comes with strings attached about what you have to do to get yourself back into financial stability.

Q28 Jonathan Shaw: What happens if in a few years' time those schools are in exactly the same position? Will there be another £120 million?

Mr Normington: I sincerely hope not. It will depend why they are in deficit, of course. Sometimes it is a short-term issue—they are not all incompetent—but at the moment, in the present system, it is the local authority's responsibility where a school is in deficit to discuss with that school and to make sure that action is taken to handle it. If you look at the pattern—I was looking at the pattern of numbers of schools with deficits over recent years—it has gone up and down around the figure 2,000. So it is sometimes 1,800, it is sometimes two and a half thousand. It is in that range.

Q29 Chairman: What is that as a percentage?

Mr Normington: I suppose it is about 10%. Two and a half thousand would be about 10%.

Q30 Jonathan Shaw: What about the other end of the scale where we have got schools building up large reserves? Have you any feelings about that? Why are they doing that? Why are they not spending it on the children at the school? Is it because they are worried about future stability?

Mr Normington: Yes. I mean, we worry about that, of course. The equivalent . . . I have just talked about two and a half thousand schools having deficits. Of course, just over 20,000 schools had a surplus and it adds up in aggregate to about a billion pounds. Quite a lot of that is capital money which they have accumulated for a building project which they are waiting to start or which is spread over a period, but quite a lot of it is not. It depends, but you do hear of head teachers saying, "I am saving it for a rainy day". Actually one wants them actively to be using their resources for the benefit of the school and wants to leave them with that decision, but one does not want them building up big bank accounts against some future problem.

Q31 Jonathan Shaw: You said in your opening remarks that you were trying to do a lot of things?

Mr Normington: Yes.

Q32 Jonathan Shaw: And some things perhaps do not always go right. From what you have just described, in a fair judgment, do you think this is the best use of public money? On the one hand you have got schools that are not managing their budgets, giving them money, even rewarding them, you could say; on the other hand you have got a billion pounds built up. Is this one of the things that the Department cannot manage? Is it too difficult? It is one of the core issues?

Mr Normington: It is one of the core issues. I think we are trying to ensure that schools . . . It is a highly devolved system. There are 25,000 budget holders out there. We are trying to ensure, with a lot of support, that they get better and better at managing that budget. I think if we want them to be confident about managing those budgets and not having large reserves built up, we have to give them more certainty and stability in those budgets so that they have confidence to spend the money, so they do not fear that next year it is going to be a problem. We have admitted that we got it wrong last year, and we were taken to task in your Committee's own report for it, so we are putting our hands up and saying we got it wrong, but other people in the system got it wrong too. I think that our responsibility is to provide a stable framework. If we could move to a three-year budget for schools, and that is a big "if", but if we could do that and give them that certainty, I think I could say to a school, "Why have you got a reserve built up? What is your three-year plan for making sure you are using those resources effectively?" If you are doing it on year to year basis you will always feel on the edge, and I think many schools do feel that.

Q33 Valerie Davey: If I can follow straight on from that: it has taken a good while to build up the confidence of heads that there is going to be a year on year increase in school budgets; it is not going to be cut back suddenly?

Mr Normington: Yes.

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Q34 Valerie Davey: Having established that, however, if we are going to project forward, although the budgets will be increased, they will not be increased at perhaps the same percentage in future years. Is that dialogue being entered into with school head teachers?

Mr Normington: We are having a dialogue with representatives of all those involved in funding, including local authorities, about 2005–06. We have not yet talked about 2006–07, 2007–08, partly because the Government has not yet taken any decisions about the system it is going to use for providing security to schools in schools funding at that point, and partly because it is related to the spending review. One thing we learnt from our problems last year was that we needed to be talking much more to school representatives of head teachers and local authorities about the details of this. That is what your report said and that is what we have been doing, but it is not yet about 2006–07 and 2007–08.

Q35 Valerie Davey: So is that core funding, that absolute basic funding which we are talking about, the totality of budgets and LEA budgets, of course, with the additional local factors there, but I think I would have been a bit concerned if I had read yesterday's article in *The Guardian* about the complete taking out of the Standards and Effectiveness Unit. I know they have been anticipating that, but how did they know that those additional funds for very special projects were going to go completely?

Mr Normington: No, it is really important . . . This headline: "The Standards and Effectiveness Unit is going", needs some explanation. This is simply a re-organisation in the Department. There will continue to be a unit focused on primary and secondary standards, which is the core job of the Standards and Effectiveness Unit. The standards fund, which has been administered by that unit and others, will be retained. I think it is about £2.9 billion at the moment, and it will be retained. In fact, one of the things we had to do last year was to stop the plan to move more of the standards fund into the local authority settlement in order to stabilise funding, so that is still retained, but over time we need to move to fewer and fewer school budgets so that the money is not tied to lots of small things. We are trying to work to a position where there will be, I guess, a local authority settlement, and central funding comes in the smallest number of streams with an emphasis on the outcomes you want from that and not on the processes and plans you need to put in place to achieve it.

Q36 Valerie Davey: I am sure head teachers will be delighted to hear the last part of your answer—

Mr Normington: I hope so.

Q37 Valerie Davey:—that we are not going to be bidding, bidding, bidding; but if I had gone to a head teacher yesterday with this article, would they have been able to explain that, or would they have been as alarmed as I was?

Mr Normington: I do not know whether they would . . . I hope they would not have been alarmed. I do not suppose so many of them read it, but that article is about what we are doing to the Department, it is not about the reduction in funding streams. Part of the reform of the Department is that we do not represent as much of an overhead and burden on the system and that the system is given more freedom to achieve its outcomes. I think they will get that from that message, from that article, and I hope they will be very pleased with it. I think the Secondary Heads Association's General Secretary, in a gentle way, says, "That looks like good news for us", but they know it is coming because it is something we have been talking with them about.

Q38 Chairman: When you reflect on what happened the year before last, you said that you got it wrong. In a sense it was worse than that, was it not, because you blamed other people, you blamed local authorities, and that was very damaging. Your job, in a sense, is maintaining a good relationship with the departments that deliver education in this country, and it did not do anyone any good when you in a sense falsely claimed that it was all their fault, not yours. Was there ever any kind of attempt, not to say sorry, but to apologise in some form, and what are you doing about building relationships that were very damaged at that time?

Mr Normington: We have said sorry. Charles Clarke has said sorry, and we have said sorry to them and I have said it from public platforms. I know that this sounds as if it is trading words, but we did not think we were setting out to blame local authorities in that way. We were trying to make a point, which is true, which is that we share responsibility and we need everybody in the system to be working to make sure that the local funding system works, and we were trying to get local authorities to share that. They certainly interpreted it as us trying to shift the blame. It does not matter what we think, that is what they thought, and that damaged relations, it damaged relations with secondary heads. What is so frustrating about this, as you know, is that at this point we had made lots of progress in building a shared sense of endeavour with secondary head teachers. We had probably got as far as I thought it was possible to get at that point and it was all set back by the school funding problems and we had to start rebuilding those relationships.

Q39 Chairman: It is a strange situation. Here is a government that is pouring money into education and you manage, in the midst of these days of plenty, to get it wrong in terms of your relationship and also get it wrong in terms of the funding. The fact is you have put in a report, you said you have put a sticking plaster over it for a couple of years, but you may—and this is coming back to my reference to "Groundhog Day"—you may be in exactly the same position very shortly, because according to our inquiry you have not sorted the basic problem. That is true, is it not? You have put a sticking plaster over it for two years?

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Mr Normington: It is an interim solution, and until we get certainty about what the long-term position is, it will feel like an interim solution. Two things are better though: one is that we know quite a lot more than we did about the detailed position, and, secondly, you could continue with this arrangement that we have. The arrangement we have put in place which guarantees an increase to every school is a way of providing security to schools, and you could roll that forward—you could do—but until we are clear what the long-term position is, there will be a feeling that this is a two-year sticking plaster. It is a bit better than a sticking plaster, because it has stabilised the position and ensured that schools are getting an increase and that is in a sense the answer to the question. There is a lot of money going into the system. This approach we have adopted ensures that they do know that and they do see it, albeit that they have lots of demands to put against that.

Q40 Chairman: There is still the feeling, even with new arrangements, even in terms of your longer term objectives, that you would really like to cut the LEAs, the local authorities, out of the whole thing and directly fund it. Is that not your real ambition?

Mr Normington: That is something that the Government will no doubt decide in due course. I do not think I ought to say yes or no to that question. There is a debate going on about the future role of local authorities and the future funding system, but no decisions have been taken yet.

Q41 Chairman: You will be giving advice to your Minister on that, will you not?

Mr Normington: Of course.

Q42 Chairman: Would you like to cut out the local authorities? Would it be much more convenient in your trimmed down department if you took all that responsibility yourself?

Mr Normington: I am not . . . I think it would be wrong of me to give my personal view to this Committee. I will be discussing that with the Secretary of State. All I would say is that we have lots of models around. We have a model where we had a funding agency for schools which did fund about a thousand schools by 1997 directly. There are those models around, but, as I said to this Committee before, you do need to have some local moderation of a national system, and these are big decisions which are for the Government to take, not for me.

Q43 Chairman: But you know how the media works in these things, Permanent Secretary. You know that in a year's time what happens at A level and GCSE time will happen. You know, the BBC and all the media, all those people, the education correspondents, all are brought back from their holidays—they are not allowed to go on holiday at that time—and you know they will be back to this time because they will find a story on the next wave of how you fund schools. Yes? That is exactly what happens at A level and GCSE. They all come back because they all know there are going to be stories—

you do not bring back all those highly qualified journalists for nothing—and they will be there like locusts waiting to see if you have got the answer that year?

Mr Normington: They will. They are very interested in this, yes. We exist in that world and, first of all, we have to try to minimise the individual cases which provide the story and often are the things that then cause the story to run away, but, secondly, we need to provide some long-term stability on these big policy issues.

Q44 Mr Turner: Do you really think that long-term stability can be the Government?

Mr Normington: I think it is very difficult in a system which is . . . You must not read anything into this comment—it is neither a plus nor a minus—but in a system where it is a combination of national funding and local funding, both of which depend on national and local government's willingness to fund, to put resources in so at local level it will depend on whether local authorities are able to put up the council tax in order to fund their share of this, it is very difficult in that kind of system to provide stability. On the other hand, if you are a school you do not really understand that. What you really want, you are trying to run your school and you have a longer time horizon than a one-year horizon. So I think we must all try to provide that stability even though I think it would be very difficult.

Q45 Chairman: The reason I ask is because it sounded to me as though you were accepting the sticking plaster because you could see long-term stability being achieved, but now you are telling us it would be difficult to achieve?

Mr Normington: Yes, but the Prime Minister has said publicly that he would like to see a move to three-year budgets—that is what he said to the National Association of Head Teachers a few weeks ago—and I am saying that will be very difficult to achieve but that is what we are working towards.

Chairman: We would like to move now to schools funding, particularly focusing on teaching numbers. Jeff Ennis.

Q46 Jeff Ennis: If I could, prior to coming on to that, ask a question supplementary to the point we have just been pursuing about the billion pounds that is consumed in school budgets at the present time. David, you have already acknowledged that a fair chunk of that is being kept by head teachers for future capital projects, but there is also a fair chunk that is being kept for a rainy day by certain schools. Do you foresee the fact that we are going, hopefully, to a three-year budgetary span will that reduce the amount of that billion pounds that has been put away for a rainy day, and should that be ruled out in the amount that continues at the present time? Do you foresee that happening?

Mr Normington: If we can get to three-year budgets or something that provides that kind of stability, then I would expect it to be possible for schools to be more confident about using their surpluses. That is what our aim would be. I think we need to encourage

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them to do that, because that is money that is sitting there unused and it is public money for education. Equally, I think we have to give them some discretion to decide what to do over a period.

Q47 Jeff Ennis: But we are conveying that message to head teachers?

Mr Normington: We are conveying that message very strongly. Of course, in last year's problem we encouraged local authorities to try to use some of those surpluses to help the problems.

Q48 Jeff Ennis: Focusing on last year's problem, first of all, in terms of the problems it created for personnel issues with schools, we have been given a variety of figures just exactly how many teachers were lost within the system. The University of Liverpool said that although we had a net loss of just over 4,500 jobs in the private sector we had a small gain of 20 jobs in the secondary schools sector. Are those figures accurate?

Mr Normington: The figures I have, which are based on a January account of the number of teachers in schools, is that in January, 2004, compared with January 2003 there were just over 4,000 extra teachers in schools and 16,000, just over 16,000, extra teaching assistants in schools compared with the previous year. There are some differences between different parts of the country. Generally there were increases everywhere, but it was largely flat in the North East and the West Midlands. We are doing further analysis of that to see what the local authority position is: because if it is true that we had problems last year, and we seemed to have, it may be that in particular places it shows up as a fall. Can I say one other thing? We have this issue underlined—this is why it is so difficult to get to—we have this issue of falling primary school rolls, and indeed from next year, falling secondary schools rolls, and that is causing some reduction in primary teacher numbers potentially, although it is not showing up in the figures very much yet.

Q49 Jeff Ennis: So at some point in the future we will have the figures?

Mr Normington: We will have a better figure, but the figure that we have is that schools in this last year have employed 20,000 extra staff.

Q50 Jeff Ennis: Do we have a figure on the number of compulsory redundancies that were made last year?

Mr Normington: No, we have tried to get that answer and I am afraid we just do not have it. We do not collect that as a matter of course and I do not have it.

Q51 Jeff Ennis: Do you think we ought to collect it in future?

Mr Normington: I would have liked in the last year to have had a better handle on what was happening. We tried to get a better handle on what was happening using local authorities and they were never sure what was happening right up until the moment. In fact what was happening in the summer

last year was that some notices were being given which were then not implemented. So it is very difficult to get an accurate figure here, and compulsory redundancies are very rare indeed.

Q52 Jeff Ennis: Absolutely. So that is why it should not be too difficult to get the figure?

Mr Normington: I should think the answer would be almost none, but that does not tell you whether there was a shake out of people, does it, because some people go every year for various reasons, some voluntarily?

Q53 Jeff Ennis: What about compulsory?

Mr Normington: There would be none, almost none.

Q54 Jeff Ennis: What information do we have about the distribution of new teaching posts? Are they evenly distributed across the country, or does it depend on the circumstances of individual schools or LEAs?

Mr Normington: I would have to come back to you on that.¹ It is certainly the case that setting aside the one-year funding problem that there are some places where there is significant growth in rolls and some places where there are significant falls. The most extreme cases are the North East, where school rolls are falling quite sharply, and London and the South East where they are growing quite fast. These aggregate figures, of course, do mask this problem that we have, that there are quite a lot of jobs in some places and the market is static in others. We do have that picture, but I would have to come back with the details if you wanted it.

Mr Kershaw: One way of answering that question is through vacancy rates. We do know from last year's figures that vacancy rates fell pretty much across the board and fell more sharply in places like London, where, as the Permanent Secretary says, the demand for new teachers is biggest because the population is still growing, but actually the gap between the number of teachers—

Q55 Jeff Ennis: The reduction in vacancy rates, would that be across all areas?

Mr Kershaw: It will vary between subjects. I think we all recognise there are particular challenges, for example, in maths and science teachers, but broadly, and it is an average in that sense, numbers are falling, vacancy rates are falling, across the piece and most sharply in the areas where the demand is greatest. We thought that was rather encouraging.

Q56 Jeff Ennis: Going back to the hypothetical example that Jonathan quoted where you have got a school with a similar social mix and a similar pupil numbers, has the operation of the funding mechanism meant that a school in one area can recruit more staff while a similar school in another area has had to reduce?

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Mr Normington: Do you mean in one area?

Q57 Jeff Ennis: From one LEA to another with a similar social mix, similar pupil numbers?

Mr Normington: If I say, no, you will almost certainly give me an example of a case where this is happening. I cannot be sure that will not be happening. Overall the allocation mechanism was designed to move resources out of the south-east in broad terms, but there are quite significant historic disparities between the funding of education in neighbouring local authorities, which means that the resources that local authorities have from place to place do differ quite a bit and you get schools on either side of the local authority boundary which can be funded quite differently. So it is possible, though if you are putting a floor in in terms of the increase each school is to get, every school should be getting that increase. So in terms of the increase this year, every school should be getting it, but it is from a different base in each case.

Q58 Jeff Ennis: Is the funding of individual schools fairer now since 1997 and is it as fair as it should be?

Mr Normington: We try. In the reallocation, in the new formula that was introduced, the one that was the basis of all the problems, that did attempt to provide a fairer system for allocating resources in terms of pupil numbers and need, and I believe that was a fairer formula. What has happened is that by putting in floors and ceiling, as you well know, we have slowed down the impact of that. So the impact of that is going to be introduced over a much longer period. It will happen, but putting in floors and ceiling means that you do not have the sharp shifts immediately. So it is fairer but it is going to take time.

Q59 Paul Holmes: One quick question on teacher numbers. Last year there were these big arguments, which Jeff has already referred to, with some surveys suggesting there were big losses of teachers, but the Government has come out with figures saying that in fact there was a net increase of 4,200 teachers. Part of that 4,200, nearly half of them, 1,800 people are trainee teachers, they are trained for qualified teacher status through an employment route. Is that not fiddling the figures when we do not include those who do PGCEs as teachers, we do not include people doing BA and task teachers, why include trainees through a third route as teachers?

Mr Normington: I do not think it is fiddling because those figures are on the record. We announce them. So you can see it. If you want to take 1,800 and 4,200, fine. They are real people and they are in schools and the graduate training groups, the graduate teachers programme, does involve them being in the classroom teaching, albeit with support and supervision. So they are real people and they are teaching, but, yes, they are trainees.

Q60 Paul Holmes: Why not equally then include all the class time the PGCE trainees spend in schools, which is a significant part of course? Why not roll all those up and say, "We have got lots of extra teachers there as well"?

Chairman: Very tempting.

Q61 Paul Holmes: I am sure it is comment!

Mr Normington: Because they are not on the strength of the school, these are trainees on the strength of the college. These are just definition issues about where you count them. The trainees that you are referring to are in the schools, properly involved in the schools, and so on. The PGCE students are there for some of the time but they come and go, and, in fact, they will usually do two schools in the course of the year, so they are not really on the strength of the school; and usually the graduate trainees are going to become qualified teachers in that school—not always but usually they will be—and they will be experienced often in their subjects, they will bring in experience from business or industry. So they are more experienced people, albeit they are not experienced teachers. There is no . . . I do not want to mislead about this. Those figures are on the record.

Q62 Paul Holmes: So one amount of time for trainee teachers does not count, but one amount of time for trainee teachers does count?

Mr Normington: The graduate training programme teachers are included in the figures because they are in the schools, the PGCE students are not. That is a fact.

Q63 Chairman: Can you take us through—

Mr Normington: That is all on the record; it is just all on the record.

Q64 Chairman: Could you take us through the planning. How does the Department work? We are told that you are probably going to get rid of 20,000 teachers in primary education by 2010 because of falling school rolls—that is the figure we have from Liverpool University but everyone in the sector believes there is going to be a very sharp drop: because of the demographics there is going to be far less need for primary school teachers. If that is true—do tell us if you do not think it is true—how does the Department plan for that change?

Mr Normington: I would have to check on the precise figure, but obviously falling school rolls means that there will be the need for fewer teachers unless you take a decision that you have smaller class sizes. There are other options, but that's a question of resource. That debate is going on. It does not automatically follow that you should take the resources away from primary schools. You could do, but it does not follow, and that debate is being had. In terms of planning for the future, we have relatively sophisticated means of analysing the future need for the teachers and setting the targets for teacher training accordingly.

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Q65 Chairman: But should you not have been planning for this for a long time? On the one hand, you are training teachers and, as I understand it, you are not reducing the numbers of teachers training for primary schools; on the other hand, you do know, everyone knows, this is the last year of a high level of population coming through primary. Surely you have a mechanism of saying, "Look, here is a policy. We are going to continue training this number of teachers and perhaps increasing them." At the same time it is very important that you make adjustments, surely, because otherwise these people are in training now, or are about to begin their training in teaching and there are not going to be the jobs for them when they get through?

Mr Normington: I believe we have adjusted primary teacher training levels.

Mr Kershaw: May I come in simply on the basis that I know a little bit about it from my previous post. As the Permanent Secretary says, we have rather a sophisticated teacher supply model which works both with our analytical services folk in the department and policy colleagues and in the Teacher Training Agency which does indeed plan in some of the judgments about falling teacher numbers as a result of falling rolls in primary and has done for some years, and that is why the Teacher Training Agency has long-term second recruitment targets, although, of course, we modify them as we go along. The second point, of course, is to count the demographics of the population, the teacher population, as well. So over time, as we know, a significant number of teachers are approaching retirement age and that, of course, is taken into account in the model as well. So the falling numbers you describe in primary, to some extent demographic changes will take account of that. The third thing is that when one takes the nature of training that we are talking about, of course we are not going to ask the Teacher Training Agency to train people for whom there will not be jobs. It is fair to say that over the last few years all the pressure has been to recruit and train more people generally rather than cut them off, but it is one reason why, if you look at the figures, over the last two or three years there has been a distinct shift from the four-year B Ed which traditionally people have gone on from to primary school teaching into the PGCE, which traditionally has been the main route into secondary teaching, and that has been a very deliberate shift to take account of that. That is what secondary people want to do, and that was where the main challenge in terms of growing recruitment will continue to be. So I think it is a bit more planned and a bit more long-term than your question suggests.

Q66 Chairman: I am not saying it is not planned. I am saying the Committee would like to know how you plan. This is one of the things we are seeking to learn. A key political decision on all that would be at what stage inserted into this do you want to continue training teachers because you want to reduce class sizes? That is crucial, is it not?

Mr Kershaw: Yes.

Q67 Chairman: When is that going to be insinuated into your model, because that is a very big political decision, is it not?

Mr Normington: At the moment the model is that we will not go on reducing class sizes. In a sense the position will be stable from now, but obviously with the spending review just concluded and us thinking about the next three years, that is an issue that is being considered and discussed.

Q68 Chairman: What about the feeling in something that we are very aware of in terms of our interest in early years, that there is a strong body of opinion out there that there are not enough qualified teachers in early years, pre-school? This would be surely an opportunity to improve the quality of pre-school trained personnel?

Mr Normington: It is, and that will be factored into it. I think that the great expansion in under-fives' education and childcare does to some extent counteract the declining primary numbers, because we do need more qualified people for under-fives, and that is an issue now.

Chairman: Let us please move on then. Thank you for the answers to those questions. Jonathan, you wanted to do something on the financial management capability of DfES.

Q69 Jonathan Shaw: You said, and I repeat it, you are trying to do lots of things. We have spoken about the individual learning accounts and the e-University. The next public roll-out of targeted money is the Education Maintenance allowance, which I believe runs into its third year about £500 million. What, if any, lessons have you learnt from ILAs and the universities and the many things that you do that you can tell the Committee with confidence that the Educational Maintenance Allowances are pretty secure?

Mr Normington: You are right to draw the comparison, and we have been trying very systematically to learn the lessons from Individual Learning Accounts where that is appropriate and moving across to Educational Maintenance Allowances, and we have a very tightly run project for implementing education maintenance allowances which I personally have been keeping a close eye on.

Q70 Jonathan Shaw: I bet you have. You do not want them to blow up on your watch, do you?

Mr Normington: By the way, in a sense that comes from a much better risk assessment in the Department, which says: what are the big risks to us? And clearly the implementation of a system like this is a risk involving quite a big IT system as well, and we have learnt that we need to plan that properly, that you need to get your sequencing right, that you need to work effectively with your private sector partners much better than we did on ILAs. The issue of fraud is one that we have been very concerned about, because in a mass payment system of this sort there is scope for fraud, and we have been analysing

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where that may be and trying to put in steps to minimise it, with the National Audit Office, as you would expect, watching us every step of the way. Will it go well? I hope so, but all I can say is we have done everything possible to make it go right.

Q71 Jonathan Shaw: Who is your partner? Is there a partner?

Mr Normington: It is Capita.

Chairman: Oh, that is interesting. They are old friends!

Jonathan Shaw: I wonder if anyone else exists.

Q72 Chairman: Can I have *Hansard* report that the Permanent Secretary is smiling!

Mr Normington: They won the contract, of course, fair and square and they are very, very big in the education world.

Q73 Jonathan Shaw: Did they give you a presentation on their track-record?

Mr Normington: We are, of course, well aware of their track record and their plusses and minuses because we have a lot of dealings with them.

Q74 Jonathan Shaw: There is a great big minus when it comes to ILA, is there not? Permanent Secretary, I think people reading the transcript and listening to these deliberations would be rather taken back, the fact that you awarded this to Capita given the parallels with ILA. Some people might say you have got the front to put in an application to run this? What would you say to that?

Mr Normington: It is really important that we do not attack Capita in their absence, after all they are a highly competent company. They have a number of contracts with us. They run the Teachers' Pension Scheme, for example, and they run it very well, so they do have a track record. The IT bit of this is really not a complicated bit of system design at all, it is a simple transaction. They won the tender fair and square and they are very experienced in this field, but I am, of course, completely clear about the risks we run, and I am sure this Committee will have me back here if it all goes wrong.

Q75 Mr Gibb: What does a company have to do to be blackballed by the DfES? What do you have to do?

Mr Normington: You see, you assume that they were the main reason that the ILA system collapsed and had a problem, that they participated in that, but they were not the only reason. Indeed your report showed that there were all kinds of decisions taken at the wrong points which sent the programme in the wrong direction. I do not like to contract with anyone who, I think, puts us at risk and we took the judgment that Capita was not going to put us at risk in the Educational Maintenance Allowances. We are working very closely with them to try to make sure that the programme functions properly. A lot of young people will be wanting this money.

Q76 Jonathan Shaw: You do a lot of things, you try to do a lot of things and in trying to do a lot of things, you underspend quite a lot of money every year. How much did you underspend on the EMA? Did you not underspend on the EMA?

Mr Normington: I do not know. The Educational Maintenance Allowances only roll out nationally this year.

Q77 Jonathan Shaw: The pilots then. Did you underspend in the pilots?

Mr Normington: I do not know. I think it is very unlikely. There were not huge amounts of money being spent on the pilots certainly.

Q78 Chairman: Well, Stephen is the Financial Director, so would he know?

Mr Normington: We would have to look up that detail. We can provide you with it though.²

Q79 Jonathan Shaw: Why do you think it is that every year you underspend? Is it because, in your own words, you are trying to do a lot of things, perhaps trying to do too many things?

Mr Normington: Well, we do a lot of things. This is not meant to be avoiding the question, but I need to say that we operate increasingly on three-year budgets and we are trying to manage our resources over those three years and it makes no sense to focus on the artificial point of the end of March each year in terms of the way we manage resource, so what we are trying to do of course is to have a profile of expenditure which is sensible to get us as close to that profile as possible and actually in this year which has just finished we will be within about 2% of our budget which, on a budget of £27 billion, is pretty good actually, but it still turns out to be £500 million. If you look at aggregate sums, £500 million really is quite a big underspend, but it is 2% of the total budget and most organisations would be quite proud to be within that range. The issue is whether that money is lost. No, it is not. It gets profiled over a three-year period and in terms of helping with the school budget position, we have actually used some of that projected underspend to underpin what we are doing to stabilise school budgets over the next two years, so that is how we manage resource over that three years.

Q80 Jonathan Shaw: So you factor that in?

Mr Normington: Yes.

Q81 Jonathan Shaw: You know you are going to underspend and you can provide a sort of cushion—

Mr Normington: Sometimes.

Q82 Jonathan Shaw:—in case, with a lot of the things you are doing, some of them go belly-up?

Mr Normington: Sometimes we anticipate an underspend if we are confident about it. We also in the Department always try to retain some kind of contingency reserve against the unexpected and in fact it is largely spent now.

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Q83 Jonathan Shaw: Does the Treasury anticipate that you are going to underspend each year?

Mr Normington: The Treasury gives us end-year flexibility in the expectation that we will manage resources over year ends and we will not fall off cliffs at the end of the year.

Q84 Jonathan Shaw: Those are not normally words which you hear associated with the Treasury, giving money and being flexible.

Mr Normington: Well, we all learn, do we not?

Q85 Jonathan Shaw: Well, what I wondered was that we do know that there are targets to meet and lots of things to do in order to get money from the Treasury, so is that not the real reason why you underspend every year? Gordon Brown has such a long list, so he says, "If you want money from me, you are going to do all of these things", so you say, "All right then, we will do all of those things", and you know that you are never going to be able to complete them, so is it not the case that that is why you underspend?

Mr Normington: I do not think so. There are certainly cases, and I can cite one which is SureStart, where when the programme starts out, there is over-optimism about how quickly it will develop and build up and, therefore, you get your profiling wrong. It is not that you do not get to that target; it is just that it is slower to develop than you expect. The biggest problem always in Whitehall is actually managing your capital investment because buildings do not ever go quite as you expected and do not fit neatly into financial years, so you do sometimes get it wrong. You sometimes do, but I do not think that is because of the number of things we are asked to do. Sometimes there is an ambition to do things faster than is practicable, that sometimes happens.

Q86 Jonathan Shaw: Of that £500 million underspend, what percentage of that is for planned capital projects as against revenues?

Mr Kershaw: A relatively small proportion because we have got a great deal better at managing our capital underspends in the last couple of years.

Q87 Jonathan Shaw: I am sorry, I thought the Permanent Secretary said it was only capital.

Mr Kershaw: Capital is always one of the, he said, I think, most challenging things to do in terms of managing any kind of budget and, therefore, managing a potential underspend, but actually it has been tightened up quite a lot over the last couple of years. My understanding is that at the moment we have an underspend on our capital investment of round about 2.4% whereas, interestingly, the Whitehall average, is nearer 8%, so actually the Department is doing rather well compared with the Whitehall average. My point really was going to be that actually in terms of investing our underspend, you are wrong, I think. It is not just about dealing with problems or indeed pressures from the Treasury, but actually sometimes it is about making the very best of success. Ministers announced yesterday, for example, that they are putting an

extra £130 million into the Learning and Skills Council and that is actually because they have done a great deal better than either we or they had dared to hope in terms of participation in learning by post-16s and actually we want to give them some extra money to help them make the most of that and make sure that colleges have sensible and challenging budgets over the next three years. That is an example where we have used our end-year flexibility much more in an intelligent way than perhaps we might have done a little while ago, the kind of challenge you, as a committee, have often set in the last couple of years, and it makes the very best of the money we have got. That is much better than the kind of arbitrary one-year closure sort of debate where actually what you end up with, I guess the technical term, is a "splurging" and actually we do not do that anymore, but we cross those end-year boundaries to make the best of the money we have got.

Q88 Jonathan Shaw: Just for clarification, Mr Normington, you did say that one problem was capital in terms of the underspend and then Mr Kershaw said, "Well, it is only actually a small part of the picture", so help us to understand where the underspend problems emerge. As you rightly said, £500 million is a lot of money and there are plenty of headteachers and principals of colleges who would give you a long list as to how you might best spend that in their institutions. Does it arise from new initiatives, new projects? If you sort of have a list of particular areas or policy which you are trying to implement, would new projects and new initiatives come up more often for underspend than—

Mr Normington: Yes. We do not have the end-year reconciliation, I think, for the underspend for the year we have just come out of. If you look at the year before, about half of the underspends in that year were in the SureStart and children's area which is simply about the speed of the build-up and it is generally true that new programmes take longer to get off the ground and there is over-optimism about the profiling of those at the outset and that is particularly so. This is also a factor in underspend when it is a highly dispersed programme, so you are very, very dependent on local partnerships and local programmes getting off the ground. Therefore, for two or three years before this one, the SureStart Programme has been a significant part of our underspend, I think.

Q89 Jonathan Shaw: It is a reasonable point for us to question you on, do you not agree? Earlier on you were complaining about headteachers squirreling away money and they might say, "Well, don't talk to me while you have got £500 million I could deal with".

Mr Normington: It is reasonable and indeed we do not require the Committee to be an intermediary in making that point to us; we get that point a lot. Therefore, it is a reasonable point to make because we have to be as good as we can be at profiling the build-up, the expenditure profile of any programme. We are getting better at it, but with new programmes it is always a bit of a guess because you have some

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evidence, but you do not know for sure, but that money is not lost to the system and the way in which we have now got the flexibility over three years enables us, and it has enabled us with school funding, to transfer some of the underspends to schools. We have got out of the school funding problems by putting a lot of extra resources in as well as providing stability and that extra resource largely comes from underspends, not wholly, but largely.

Q90 Jonathan Shaw: Do you say to the Secretary of State when he comes in in the morning, "I've got a new idea. What we're going to do is we're going to have SureStart, we're going to do all of this for young children and families in deprived areas and in three years' time it is going to look like this", and do you ever say, "Hang on a minute, it won't probably look like that because going back year after year we have had this underspend and the reason why is because we can't deliver it in the time that politicians say"? Do you say that to him?

Mr Normington: Yes, but it is not as unsophisticated as that. I would not dream of suggesting that the Secretary of State was as unsophisticated as that. Actually SureStart was a prime example of a great deal of policy work which goes on beforehand. There is always quite a debate about what the profiling of a programme should be and, yes, I said to the Secretary of State, "It's not going to happen". I have a Secretary of State who is quite realistic about those issues, by the way.

Jonathan Shaw: Yes, I have heard he is a very cerebral and cultured man!

Q91 Chairman: We are talking about the wrong Secretary of State, are we not, the previous one with SureStart?

Mr Normington: The SureStart Programme is an interesting example of a programme which has a ring-fence around it, something which I would like to remove because I think it does not help us to manage the resources, but nevertheless it has a ring-fence and, therefore, I am not able to transfer the resources out of that programme without Treasury approval and that is because the Treasury wanted to make sure that the resources they gave to SureStart were in fact devoted to SureStart. I understand that, but eventually I hope they will have sufficient confidence in us to enable us to manage those resources, as we do the rest, as a total block.

Mr Kershaw: Maybe I can make a point arising out of that which is simply to say that there is a natural caution about how we spend our money and if there is one thing worse than underspending, from the point of view of this Committee and no doubt the Public Accounts Committee, it is overspending, so there is in a way a natural level of underspend. Now, one way of dealing with that, and that has to be as small as it possibly can because of the reasons you have given, but actually one way around that is precisely that we have to reduce the number of individual budgets because if everybody underspends a little on lots and lots and lots of budgets, that is what produces the big numbers which we are criticised for. Actually what we are

doing in terms of the new relationship with schools and the single grant for school improvement which will go with that, the Permanent Secretary's remarks about the SureStart ring-fence and how over time we are going to change how that works, those are ways of actually helping colleagues within the Department to manage bigger clusters of budgets themselves in a much more intelligent way and do their own yearly reshuffling of money to the top priorities rather than, as it were, having to hold big amounts back and saying to the Department that we will just live with the kind of underspends you will probably criticise us for. So I think there are some policy assaults on that problem as well as the classic systems within the Department.

Q92 Chairman: How many other ring-fenced programmes are there?

Mr Normington: The Children's Fund is ring-fenced at the moment, although that is to be eased. I think some of the student support budgets are not quite ring-fenced, but they effectively are because they are sort of demand-led and, therefore, we have to fund the number of students that come through.

Mr Kershaw: And Educational Maintenance Allowances of course are currently within Annually Managed Expenditure rather than within our Delegated Expenditure Limit, so they are in effect almost managed for us by the Treasury on a year-by-year basis and that itself produces small rigidities in the system, but we have agreed with the Treasury that that is because it is a very new programme and it is very demand-led at the moment and over time it will come back within our Delegated Expenditure Limit.

Q93 Chairman: So was the decision made in the Treasury that SureStart would never expand beyond the limits which it was given, however successful the programme has proved to be, that SureStart could not go beyond that because the budget was fixed by the Treasury in the first instance?

Mr Normington: But it was a very significant budget and in a sense it worked the other way with the Treasury. They wanted to make sure that those resources were spent on SureStart and that they were not used for anything else.

Q94 Chairman: No, but, Permanent Secretary, that is exactly our point which we brought up last week with Margaret Hodge. There has been a decision, first of all, that this flagship programme, SureStart, which, as everyone says, is absolutely magnificent and really gets to the early-years stimulation of the child and so much else, the support of parents and so much else, and everybody knows that it should be rolled out, but the decision has been made that it is too expensive to roll out, so we are going to do it on the cheap in other communities. SureStart is not going to be rolled out beyond its present bounds, is it?

Mr Normington: It will be expanded, but at the moment, for instance, if you talk about children's centres, it will be focused on the most deprived wards, but in the Spending Review settlement which

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we have got for the next three years, there is a 17% increase in SureStart resources, a big increase, so we are going to expand and continue to expand SureStart.

Q95 Chairman: I understood that it was going to be trialled in a third of the poorest communities. Is that right?

Mr Normington: I hope we will be able, with the resources we have, to have a children's centre in every of the 20% most deprived wards.

Q96 Chairman: Yes, but that is not SureStart.

Mr Normington: Well, it is part of the SureStart Programme.

Q97 Chairman: Yes, it is part of the SureStart Programme, but the formal SureStart Programme is different.

Mr Normington: We will not be able to have the SureStart Programme everywhere, but the children's centres will be the centres for the running of the SureStart Programme and it will be, I hope, by the end of the Spending Review period, in every of the 20% most deprived wards providing that full service. We have ambitions to go further than that, learning the lessons, but not necessarily having everywhere the full SureStart offer.

Q98 Chairman: You had the ambition?

Mr Normington: We have ambitions.

Q99 Chairman: You still have?

Mr Normington: Yes, but we are still looking at how we might do that. Using school resources, using schools more effectively as extended or community schools is a way of doing that. We have lots of community resource in the system already and we are just not using it properly, I think.

Q100 Mr Chaytor: Given what you have said about the importance of three-year budgeting and the increasing fluidity between the budgets at the end of each financial year, is there not an argument for presenting your accounts in the departmental report in a different way because the accounts are presented in a sort of traditional end-of-financial-year outturn only and it is impossible to see how the Department has vired money between budgets. Now that we have got three-year budgeting as the norm, is there not, for the sake of openness and transparency, a case to have a different presentation of the accounts so that we see each year's assessments and each year's outturn and then we can ask questions as to why any variations take place?

Mr Kershaw: I think that is a very interesting point. You will know that we have tried over the years to present the accounts in a way which is most helpful to this Committee and that is why there is one set of accounts in chapter two of the report and then another set of accounts which is essentially governed by the Treasury conventions in the annexes and we have always tried to respond constructively to those kinds of points. I agree with you in the sense that the point of accounts is to reflect transparently where

policy is going and to tell a proper story about what we are trying to achieve with our money. I think that is a fair point and we would like to take it away and reflect on it. We will have to talk to the Treasury about it and those others who are very keen on telling us how we should present our material to Parliament. I think you make an interesting point.

Q101 Mr Chaytor: Can I return to the ILA legacy because in the Public Accounts Committee's Report to the ILA affair, in criticising the Department's risk-assessment procedures, they concluded apparently or recommended that your new risk-assessment arrangements should reflect best practice and that they should be accredited by internal audit, so are your new risk-assessment arrangements now in place, do they reflect best practice and have they been accredited by internal audit?

Mr Normington: I believe they reflect best practice and yes, they have been accredited by internal audit, and they go right up to the board level where risk registers are maintained, so they are maintained at different levels and the board reviews them on a quarterly basis. Therefore, I think they do reflect best practice and we have taken a lot of advice on them. This is part of a government-wide drive to improve risk management and assessment right across government. If the next question were, "And will you always get it right?", of course not because—

Q102 Mr Chaytor: No, my question is a different one.

Mr Normington: Okay, but it is inevitably the case that you do your very best with risk assessment and it is the risk which you do not see of course which knocks you right off course.

Q103 Mr Chaytor: Well, we will move on to some of the risks which you might not yet have seen. One of the other flagship policies which will essentially involve problems of forecasting demand is the Level 2 entitlement to free tuition for adults who do not have a qualification to Level 2. Are you confident that your new risk-assessment procedures will accurately forecast the level of demand for take-up of Level 2 entitlement, how much is it going to cost and how many adults will be eligible to take up their entitlement of it?

Mr Normington: Well, we have not done all that work yet because we are just at the beginning of making that assessment. We will have to make sure that we have all the things in place which you describe and it is on our risk register as one of the issues which we need to consider. Remember, we have not allocated our resources for the three years to 2007–08 yet and, as we do so, we will be trying to answer those questions and to profile the take-up, so we are a little way from having those answers, but that is the work which is going on.

Q104 Mr Chaytor: But is there not a problem with the sequence of events because the policy has been agreed upon and publicised without any

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understanding of the numbers of people who may be entitled to take advantage of the policy, so should it not be the other way around?

Mr Normington: I think, to be fair, a policy objective has been announced in the Skills Strategy in fact and we are now looking at how the resources which we have been allocated in the Spending Review will enable us to meet that and over what period. I do not think that those parameters have yet been set, so that work is going on at the moment.

Q105 Mr Chaytor: So is it possible, therefore, that once the implications of the next Spending Review have been looked through, the Department may decide that it cannot actually provide the Level 2 entitlement for adults?

Mr Normington: Well, I think it would be very odd and that would be a change of policy really, but of course it must be possible in any policy area that we say that we cannot do it with the resources we have got, but I am not anticipating that that will happen. Of course it will be a question of over what period you deliver it and the resources will affect that as well as how quickly it will be taken up and I think to some extent to what extent you try to encourage and generate the demand and to what extent you just let it come, so there are ways of phasing this so that you match it to the resources you have and that is what we will be doing.

Q106 Valerie Davey: In a similar vein, is the Department confident that if the HE Bill comes through the Lords virtually unscathed that the policy which has been determined there can be effectively delivered in terms of student funding in university?

Mr Normington: I believe so, but of course that too is on our risk register. It is a very big change in the system and a lot of work is going on to make sure that it can be delivered, but yes, we believe so. We did a lot of that thinking further back, but actually ensuring that the system works effectively and that the Student Loans Company, which is the main vehicle for this, operates effectively is a major issue.

Q107 Valerie Davey: How many staff will it take? How many officers were actually allocated to this area of very complex financial risk assessment approximately? There are two questions: how many; and was it done within the Department or did you get people from outside to try and give, what I think is, a very specialist area of expertise?

Mr Normington: In relation specifically to the introduction of tuition fees, do you mean?

Q108 Valerie Davey: Well, let's take tuition fees, yes. There are different aspects of it which are all highly complex and interrelated.

Mr Normington: There are. I simply do not know the answer to how many staff precisely, but there are a number of steps here. There was a great deal of modelling of cost and likely impact done actually during the whole of the period leading up to the preparation of the Bill. We have some very, very expert analysts, but they are a very small number,

just a handful of people, and indeed we had to bring some extra help in because they were very, very stretched, as you can imagine, trying to do this. There is a separate bit of work about how the system is going to operate which was done by a separate number of people working with the Student Loans Company, but again I do not know precisely how many. The Student Loans Company is the expert in the payment of loans and so on, so they have been helping with this, but I do not know precisely the numbers.

Q109 Valerie Davey: Who is running the Student Loans Company at the moment?

Mr Normington: Do you mean the Chairman and Chief Executive?

Q110 Valerie Davey: Yes.

Mr Normington: Keith Bedell-Pearce, I think, is the Chairman and the Chief Executive—sorry, it escapes me. I am sure it is in here.³

Q111 Valerie Davey: And, lastly, does the Treasury itself take over in terms of trying to work through what I would almost call the “bridging loan period” of moving from one funding method to another which has deferred repayment? Is it the Treasury itself which monitors that or is that left with the DfES?

Mr Normington: We will be both monitoring it, but the main responsibility for it lies with us for both planning and monitoring the expenditure, but clearly in an area like this, the Treasury will take a greater interest than it would in some others.

Q112 Chairman: When you were looking at higher education finances, did it come as a shock to you or was it all built into your forward-planning of how you expand higher education, how you get what Universities UK have called the “£8 billion gap in funding”? The argument has been going on that £1.5 billion to £2 billion could come from the student loan source, but how far have you been taking into account the figures which the British Council and the Higher Education Policy Institute have been given, that there could be £5 billion, £6 billion or £7 billion coming in potentially from overseas students coming to this country to study?

Mr Normington: We do look at all the income streams and that is one of the major ones, so when we are trying to model what the income of universities is going to be, we do take that into account of course.

Q113 Chairman: So that would account for the market underspending because with all other education investment of this Government, the remarkably lower level of investment in higher education, you are basically saying to universities, “Well, you are going to get that from expanding your overseas market”?

³ Note by witness: The Chief Executive is Ralph Seymour-Jackson.

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Mr Normington: I do not think that follows. I think if you do not fund universities, they will look around for other sources of income and that has been a major source of income. Graduates are too, and that does affect their behaviour in terms of where they can recruit paying students from, but I do not think that that was by design; I think this was about how much we could afford to put in higher education. I do not think the assumption was, "Well, it will be all right because they can get lots of overseas students", although they can and we actually want them to.

Chairman: Well, we will come back to that when we look at FE and HE in the next session but one.

Q114 Paul Holmes: I just wonder if you could clarify the sort of sequence of events in announcing the one-third reduction in staff at the DfES. You have had an expansion in functions in relation to children, so you have got more work to do, but suddenly in the budget it is announced that one-third of your staff are going to lose their jobs. Has that come about because either you realised that your Department was overstaffed by one-third, or is it because some functions have just come to an end, so you do not need them, you do not need those staff anymore, or is it because the Chancellor suddenly told you that he wants an eye-catching headline and you are going to lose a third of your staff?

Mr Normington: The Prime Minister and the Chancellor together have been setting a challenge to government departments to think about what the role of the centre of government is and how much resource needs to be spent on it. That is something they have done well before the Budget and it was a challenge to us and actually to all government departments to have a serious look at this. So although it came sort of into the public debate in the Budget, actually we have been working on this for about five or six months. My own staff had been told that we were working on it and indeed the initial announcement of reductions had been made in January. Now, how is it going to come about? Well, it is going to come about through three main ways: firstly, through a major re-engineering of the system in the way I described right at the beginning, so fewer funding streams, fewer planning arrangements, fewer accountability systems, and fewer initiatives; secondly, sorting out some of the overlaps between us and our NDPBs, many of which were being described at the beginning; and, thirdly, through what all organisations should do from time to time, which is purely bearing down on your costs and looking for efficiencies, particularly in your support functions and doing that by benchmarking your HR and your finance functions against external benchmarks. All of those three things contribute to the reductions which are over quite a period to the end of the financial year 2007–08, in fact over the next Spending Review period, but with a commitment to reduce by 850 by 2006. So it is 850 by 2006 and 1,460, which is 31%, by the end of the 2007–08 financial year.

Q115 Paul Holmes: So the sequence was not that you were told to get rid of a third?

Mr Normington: No.

Q116 Paul Holmes: The sequence was that you had a careful look at your organisation, went back to the Chancellor and the Prime Minister and said, "We can lose a third"?

Mr Normington: Yes.

Q117 Paul Holmes: So it has come straight from you?

Mr Normington: Yes, but when the Prime Minister and the Chancellor ask you to look at your organisation with some clear objective in mind, but not a figure, you take it seriously, do you not, and that is what I did.

Q118 Paul Holmes: So the balance of the jobs which are going to go, are they because of the ending of all the overlapping budget streams, bidding processes, et cetera, which you talked about, or is the balance going to come from efficiency savings?

Mr Normington: It is something like half and half, but slightly more, I think, will come from the changing of the system and slightly less from efficiencies. I actually have got the details set out internally and I would be happy for you to see them.

Q119 Paul Holmes: Are there specific individual sections where you can say, "We are just losing that completely", or is it spread across the board for everybody in every area?

Mr Normington: If you take the children's responsibilities which we have taken in which you have described, what we actually have as a result of recent history is a lot of separate units, all of them with their separate programmes driven centrally into the field, so we have SureStart and we have the Children's and Young People's Unit, although we have now merged that, and the Connexions Service, we have the Youth Service; we have a lot of things which actually will benefit from being properly integrated and with the many fewer separate funding, budgeting and planning streams. There is major scope for rationalisation there and over 31% of that directorate will be reduced and that will be to the benefit of a local system which hopefully at the end of this will have a smaller number of outcomes to deliver and more flexibility about how to do it. That will happen over time, but that is the Government's commitment in its *Every Child Matters* Green Paper and that is my contribution to bringing that about. So it is really important to see this as the Department in the system and it is very ambitious, therefore, and quite difficult to command, a big job.

Q120 Paul Holmes: And, as the Chairman was asking you during the start of the session, I think, to clarify that, there will be no case of sleight of hand whereby you say, "We're cutting staff and losing this", but in reality it is going over to a lot of numerous quangos which already operate in the field?

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Mr Normington: There will be some functions moved to our NDPBs, but it will be a very small proportion of this number and since we are looking for the admin costs of those bodies to be reduced, we will be looking there for them to increase their efficiency as well. The Learning and Skills Council has in parallel announced 800 staff reductions, so this is what I mean about a whole system re-engineering. We are doing this with our partners and by looking at how the whole system works.

Mr Kershaw: There is almost no transfer of staff from the Department to our various NDPBs, though we are transferring some work, but we will not actually be transferring any people with it and that is part, if you like, of the efficiency challenge for those NDPBs themselves to take on some more responsibilities, but without us giving them either more resource or more people, so this is part of the whole system challenge which the Permanent Secretary is talking about. There is no sleight of hand here where we say the same people end up doing the same job, but in a different organisation.

Q121 Paul Holmes: So you are saying that the same people will not ever do the same job just by moving to another organisation, but will there be a pressure on the various organisations, quangos, local education authorities, for them to expand, in other words, take up the slack which you are no longer able to deliver?

Mr Normington: Well, let me give you an example. We set up the Learning and Skills Council to do a major job in relation largely to post-16 education and training and while it is being set up, we have retained quite a significant shadow function in the Department. We are really saying to the LSC, "Look, you have grown up now. You need to be able to provide stronger policy advice yourself and, therefore, we will actually pull out of doing some of that work", and this is a discussion we have had with them. Now, they will strengthen their policy function as part of that, but in doing so, they will also be reducing the burdens which they put on the system through their planning and budgeting system, so they will be growing some more policy expertise, but it will only be a small number, and that will also be within the context of an 800 staff reduction overall. So we will be stopping doing something and expecting them, having now become a fully functioning body, to do the job they were set up to do. I hope it does not sound like sleight of hand. I really do not want it to be like that and I am not moving the deckchairs about, I promise you.

Q122 Paul Holmes: How much did your staff go up from 1997–2004?

Mr Normington: It is a little bit complicated because of course we were the Department for Education and Employment at that point, but net we put on about 800 staff, I think. You can sort of track it in the documents. It sort of goes up and down in Annex F of the Departmental Report. It is quite difficult to track because in 2001 we lost a significant chunk of responsibilities to the Department for Work and Pensions and then we went down. Then we came up

again because we got children's responsibilities. I estimate that we put on about 800 staff net between 1997 and now largely to do with things like the SureStart Programme, which did not exist, the Children and Young People's Unit, which did not exist, the Connexions Service, which did not exist, the Standards and Effectiveness Unit, which largely did not exist, so actually it was new functions which we built up.

Q123 Paul Holmes: So you are aiming to cut 1,460 and 800 of those by April 2008, but that first 800 by 2006 will just take you back to 1997. Are you saying that is confused because of new functions?

Mr Normington: It is quite difficult to track that in that way, but we did expand, there is no secrecy about that, from 1997.

Q124 Paul Holmes: In terms of actual monetary savings through this reduction of one-third of staff, what does that equate to in terms of staff budget and as a percentage of overall expenditure?

Mr Normington: In very crude terms, it is about £70 million.

Q125 Paul Holmes: Are you looking at the staff savings mainly being at basic levels or higher managerial levels?

Mr Normington: We have announced this, that there will be a slight preponderance of more junior staff because this is about the nature of the Department which we are seeking to create. We are not going to do as much direct delivery. We should not need, therefore, to do as much administration.

Q126 Chairman: Can you tell me, Permanent Secretary, what has been the effect of this announcement on staff morale in Sanctuary House?

Mr Normington: Not absolutely brilliant of course. People are quite anxious about their futures. I am actually quite proud of how we have managed it. We have been as open as it has been possible to be with the staff. We have had lots and lots of face-to-face meetings with them. We are seeking to manage it through a voluntary early-release scheme and through natural wastage. We have not announced compulsory redundancies, although we cannot rule those out. People are bearing up. They are not happy particularly, but then quite a lot of them have brought into our view about how the Department is going to be, and quite a lot of them, particularly the management, believe that we are going to be better and want us to do better as a result, but you cannot manage these things without there being an effect on morale. People are very anxious and until they know what their own personal position is, they cannot be happy.

Q127 Chairman: Well, this Committee would be concerned. On the one hand, we would like to see good value for taxpayers' money, but a cut, if it destroys morale and reduces the effectiveness of the Department, we would be most concerned about.

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Mr Normington: And so will I. I have got to manage that too, but it is very difficult for there not to be a dip in morale.

Q128 Chairman: How does this link in with the Lyons Review? Are you fully participant in that? Many of us on this Committee would quite like to see certainly some of your quangos moved out preferably to Huddersfield or Bristol, Kent, Chesterfield or wherever, but are you dragging your feet on this one, saying, "We're too busy cutting the size of the central Department", but are you pushing any of these quangos out into the regions where they would be very welcome?

Mr Normington: Most of my quangos are outside London.

Q129 Chairman: Ofsted is not.

Mr Normington: Ofsted is not, but Ofsted is not actually one of my quangos.

Q130 Chairman: You have no influence on Ofsted?

Mr Normington: I have quite limited influence on Ofsted and rightly so. They are a non-ministerial government department.

Q131 Chairman: So they do not come under the Lyons Review?

Mr Normington: They are under pressure from the Lyons Review itself to relocate as well, as are the QCA, which remains in London, and the Teacher Training Agency, which remains in London. In the Lyons Review, there is an expectation that the Department and its NDPB family will move about 800 jobs out of London. Now, the majority of the Department's 4,500 staff are out of London already, in Sheffield, Runcorn and Darlington, and all the quangos, except the ones I have mentioned, are out of London, so 70% of the staff of the Department and its quangos are out of London already. Therefore, the scope for doing more is more limited than in some other places. Indeed the Lyons Review held us up as an example of a department which had taken relocation in the previous round seriously, but we are committed to trying to achieve that figure which has been published which is 800 and we are working towards that. I am not anticipating that there will be large numbers of departmental staff relocated in the immediate future because I cannot handle a run-down of the size that I am describing and a relocation of any significant size as well; that is just a management challenge too far really. However, a larger proportion of the jobs which I am describing will be lost will be lost in London.

Q132 Chairman: The majority of the jobs will be lost in London?

Mr Normington: Yes, there will be effects on all four sites, but more of the jobs will go in London.

Mr Kershaw: As to Ofsted, of course it is only the headquarters of Ofsted which is in London. Actually Ofsted is now a highly dispersed organisation and the acquisition of the childcare responsibilities made

it more so. The majority of Ofsted staff are not in London and they are actually all around the country.

Q133 Chairman: Working from home in fact.

Mr Kershaw: Yes, absolutely.

Q134 Paul Holmes: You have said quite firmly that the sequence of events was that the Chancellor and the Prime Minister said to people like you, "What can you lose from your Department?"

Mr Normington: Yes, I felt under considerable pressure to answer that question seriously.

Q135 Paul Holmes: And over the space of four or five months you looked at it and you said, "We could lose a third". Would you ever have said that voluntarily if you had not been asked by the Prime Minister and if not, why not? Surely, as the man in charge, you should every year be reviewing whether you can make efficiency savings.

Mr Normington: And I was thinking that I would need to reduce my staff, but there is no doubt about it that the process which was set in train in government brought that very, very sharply on to the top of my in-tray, as you would expect, so I was concerned about the size of the Department, given the job we were being asked to do in the future. I was concerned about the agglomeration of functions which we had collected together on children which looked rather disparate and needed reorganising, so we were already addressing that, but I think the work which I described with the Prime Minister's and the Chancellor's request did advance it, there is no doubt about it.

Q136 Mr Chaytor: When the Chief Executive and the Chairman of the LSC were before the Committee a few weeks ago, they both agreed that the funding differential between 16-19-year-olds in colleges and schools remained stubbornly at around 10% in spite of commitments by successive government ministers that this would progressively narrow. Now, looking at the spending profile of schools and FE contained in the report, it does seem that the LSC in the last year has increased spending on school sixth forms more than on FE and over the timescale that you indicate the spend for, which is 1998-99 to 2005-06, there is a significant increased rate of spending on pupils in schools than on students in further education. Do you agree with my reading of the way that spending is going and is that not in direct contradiction to what ministers have said about closing the gap and what do you intend to do about it?

Mr Normington: Some of those figures are volume-related, ie, where is the expansion of 16-19-year-olds, is it in sixth forms or is it somewhere else, so some of it is volume-related. Your general point that actually—

Q137 Mr Chaytor: The figures I am quoting are in Table 2.5 and Table 2.6, which are the figures for the per pupil or per student rate of spend, not the aggregate rate of spend.

Mr Normington: But 2.5 is all pupils, is it not, not just plus-16s, is it?

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Q138 Mr Chaytor: That is right.

Mr Normington: The Government has been deliberately increasing spend per pupil. The Government is seeking to narrow the differential of sixth-formers between FE colleges and school sixth forms, but it is happening very slowly, though it is happening slightly. For instance, the Government funded the increase per pupil for each qualification attained which was 4.5% in colleges last year and 3% in schools and that was an attempt to narrow the gap slightly. There are some constraints on it. One is that when the Learning and Skills Council took over school sixth-form funding, some guarantees were in place that they would not lose any money in real terms and, therefore, this has to be a slow process because actually the Government's commitment is to bring all the funding of FE students up to the same level as school sixth-form students and that is a costly business and it will take time to achieve, it will take some considerable time. Figures are not moving very much, that is true, but they are moving slightly, though it is at about 10% still.

Q139 Mr Chaytor: How considerable is considerable? If you had to put a figure to that, how many years on present trends would it take to achieve convergence?

Mr Normington: The reason I cannot answer that yet is because we have not allocated funds to FE colleges and schools for the Spending Review period and the answer will come out of that. However, I think it will be longer than that Spending Review period because the numbers, the demographic bulge which we have had is moving into post-16 education and training and actually into higher education, so actually the pressures on funding will be from a great increase in numbers. If that is increased further by more teenagers getting good GCSEs and wanting to go on to colleges and to sixth forms, then the pressure will be to fund those people rather than to narrow the gap, so the gap is closing slightly and it will close again in 2005–06, but I cannot give you a commitment as to when it will be closed; it is a long-term process.

Q140 Mr Chaytor: Do you see any direct relationship between the gap in funding and the gap in quality because the theme which comes out of the report is a general satisfaction with the rate of improvement in primary and secondary schools, but a concern about the slow rate of improvement in the further education sector? Do you think that is related to historic levels of funding or differentials of funding?

Mr Normington: Well, I would never claim that funding is the only reason that institutions go downhill or improve, but a very long-term squeeze on the unit of funding for further education, which has only been reversed in this Spending Review period which we are in now, has been a big problem for the quality of further education and we have seen a major squeeze on their unit of funding over 10 or 15 years and we have seen the effect of that on the staff with a lot of casualisation of staff and all kinds of problems of maintaining standards. There you

can see a direct link between the under-investment in further education and an under-qualified casualised workforce, which we are now seeking to reverse, but that is a big legacy to have to reverse and it is taking time.

Q141 Mr Chaytor: How is the casualised workforce to be reversed?

Mr Normington: What I mean is that they are all on short-term contracts and they do not have stability of contracts and quite a remarkably high proportion of further education college staff are not qualified teachers and that is an issue too, so there is a link, I think, there between investment and quality, but it is not an exact read-across.

Q142 Mr Chaytor: So you say that there is a positive commitment to reduce the number of staff on short-term contracts?

Mr Normington: No, I am not saying that. What I am saying is that there is a positive commitment over this three-year period to improve the funding of further education. For the first time the unit of funding is going up, not going down and in parallel we are putting a lot of effort into developing the framework for the training of FE college lecturers and other staff and for the improvement of leadership in those colleges, and I am hoping that that will produce a more highly qualified staff. I have no control over the terms on which they are employed, but I think if you think your budget is going down every year, that does cause you to take some decisions about who you can employ.

Q143 Mr Chaytor: We have talked about revenue funding differentials. The question I would like to ask now is about capital, because in terms of the school sector we have this hugely ambitious Building Schools for the Future programme but we do not have a Building Colleges for the Future programme. Could you say why the big differential in the approach to capital investment in the two sectors?

Mr Normington: There is capital investment now going into colleges but nothing like what has gone into schools. This is simply a question of government priorities; the Government decided to prioritise schools and decided to put the bulk of its resources into schools. I do not think there is anything more than that, really, although it is putting capital investment into colleges now.

Q144 Mr Chaytor: Are you confident that the process of approving bids under the Building Schools for the Future programme is consistent with the conclusions that are coming out of the LSC's area reviews, area inspections, because there do seem to be two separate processes at work? Individual LEAs submit their bids and if a first wave is approved another wave will be issued, but at the same time the LSCs are taking a broader view about 16–19 provision than an LEA or a number of LEAs. Are you confident that the two processes are absolutely in tandem, or are we likely to get new schools built where six months later the LSC may argue for more colleges?

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Mr Normington: I am confident that the right players are round the table taking those decisions. What I am not yet confident about is the way in which capital investment is funded pre-16 and post-16, and that is what we are addressing. At the moment you can get discontinuities because there are two separate funding streams, one which comes through the LSC and one which comes through local authorities. That is where, if we are not careful, we will get a mismatch between what people locally think is a sensible thing to do and the ability of the funding to be put behind that. So I am concerned about that, but I think the right people, including the local authorities, the LSC, the schools and the colleges are round the table looking at the future provision of an area. One wants to come out of that a reasonable diversity or provision; one wants there to be some choices for people about where they might go. So what we do not want is a sort of cartel of people deciding to close down some provision and open it up unless they have thought seriously about what the range of provision is in an area and how that meets the needs of local people. But I am reasonably confident in that process.

Q145 Mr Chaytor: Are you confident that building 50 or more academies, each with its own small sixth form, is going to help the process of co-ordinating the growth of the 14–19 sector?

Mr Normington: They are for a very specific purpose in areas of deprivation, usually to replace failing schools, and they are designed to give an injection of investment and energy into an area which has never had, for many years, satisfactory education provision. So I think that is needed. I think all the time, when you come to sixth form provision, it is important that the academy provision is looked at alongside what else is available in the area so that if it is providing some competition, fine, but you know why that is, and if it is providing complementarity that is fine too. We have only got a small number of academies up and running. We are trying to get that right but the implication of your question is right that it is an issue, because if you are putting in, in a sense, independent state schools into the system, which is what they are, then how they sit with the rest of provision locally is an important issue. So it is a long answer. The final thing is that they are usually being set up with the support and co-operation of a local authority even though the local authority has no serious involvement with them, and that I think is some assurance that there is a local provision being provided.

Q146 Chairman: I want to get on to our last section of questioning, but just before we do there did seem to be a sort of discontinuity in some of the answers you gave, Permanent Secretary, in the sense that reading the annual report, particularly on your real concerns about the quality of some of the provision in FE, the backdrop is, again, according to this, that over the period of 1998–99 you had an increase of 53% in real terms in FE colleges, and per-student money has increased by 21% in the same period. But you articulate some very serious statistics: “16% of

providers are below the floor target for long qualifications”, “12% of providers are below the floor target for short qualifications” and “24% of providers are below the floor target for either long or short qualifications.” From what comes out of the report, and from what you said, you are a bit complacent about FE.

Mr Normington: I am absolutely not complacent. I hope that was not the impression I gave.

Q147 Chairman: When you came back to David about short-term contracts and unqualified staff, you did not say “But we have a programme to change it”; you said nothing about it.

Mr Normington: We have a programme called Success for All which is designed to tackle all those issues that I described and to incentivise good performance and to give colleges that are reaching some of those targets and performing better higher rewards than other colleges, and actually to tackle issues of the under-qualification of staff, improvement of leaderships in the colleges, the improvement of the facilities in colleges and to drive the improvement of performance. The assumption that Mr Chaytor made—and which is true—is that further education provision in some places is not yet good enough in terms of the standards that it is achieving, and we have in place a programme to do that. The reason it is possible to have a really challenging approach to that, which is what the Success for All programme is, is that that goes alongside, for the first time, increasing the unit funding. So, in a sense, we are saying “Right, we have reversed a long-term trend but you have now to deliver”, and that is the challenge, really. It is quite a challenge, really.

Q148 Chairman: Is not the challenge to the Department really to take the skills agenda more seriously? I know we have had the White Paper and we all recognise that, and many of us like much of what is in it, but is not the fact of the matter that if you are looking, as we have been, across the skills sector this is the area that this country has to do much better in, dramatically better, and it does sometimes, from your annual report and the way that the department presents itself, still seem as if, “We are the Department for Education—and, oh, Skills”. I would like you to be taking on more staff if they were actually promoting the skills agenda.

Mr Normington: I know that is how we are often portrayed. We are often portrayed as the Department for Schools, in fact, but that is not how we think of ourselves. The present Secretary of State has given a lot of priority, as you know, to skills, and I have been very, very keen, particularly given my background (which is all in the post-16 area and most of my working career was in the employment department, not in the education department) to put us on the map on skills in a leadership role in the way that we have not been before. I think that we are doing that, and I think people are noticing it. I do not think you can ever get people to write about further education and skills in the excited and, sometimes, frenzied way they write about schools.

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Q149 Chairman: No, media interest in our skills inquiry has been much lower than we would get in any other inquiry.

Mr Normington: It is disappointing.

Chairman: Indeed. This is the first time—and I know we are not only talking about skills—I can remember an interview with the Permanent Secretary not being televised or on the radio. I think it is shameful. I do not know what is going wrong with the broadcasting system in this House, but it is certainly not serving this Committee very well at the moment. I just wanted to get that on the record. Now we get to effectiveness of increased expenditure on schools.

Q150 Mr Gibb: There has been a huge increase in spending on education and skills, particularly something like 32% more than inflation over the last four years. Has that delivered higher standards in education?

Mr Normington: I strongly believe it has. I can go through the areas where it is doing that, if you like. Just to take some headlines: the performance at GCSE has improved from 45% to 52.9% over that period; we have seen very great improvement over that period in Key Stage 3 performance; we have seen some improvement initially in Key Stage 2 results—major progress—but that has now plateaued, and that is a major source of concern to me; we have seen smaller class sizes, we have seen major investment in early years education and, actually, we are now providing some early years education for every child who wants it at 3 and 4. These are major investments. You go on seeking to improve performance; you do not always see the immediate effects of that investment. Your investment in early years has a very long-term return link to it; you will not see the benefits of that in terms of school performance for quite a lot of years, but all the evidence is that if you make that investment that is one of the most important investments you can make in the development of the child and the long-term return to the economy. So I do think we are getting major improvements. We are not hitting all our targets, which certainly will be a question I will be asked, but those targets are pulling up performance in every area with the one exception I particularly described, which is that after a big improvement in primary standards they have now plateaued.

Q151 Mr Gibb: You cited three output figures there, GCSE, Key Stage 3 and Key Stage 2, and there is no doubt that increased funding is having a benefit not least because you can pay teachers a decent salary and recruit the best quality of teaching. Let us look at the GCSEs figure. That represents something like a 5.0 increase or a 6.7 increase, depending which year you take. If you take the previous four-year period from 1994 to 1998, that also showed about a 4.5 point increase in the proportion of pupils getting five or more GCSEs, but in that period there was only a 3.5% increase in real terms in spending. How do you know for certain that there is a causal link between

this very large amount of spending and these increases in the proportion achieving those high grades?

Mr Normington: It is no use fencing about this. I cannot prove that a given level of investment produces a given level of output. I cannot prove it. I can show what we are getting out for what we are putting in. I think one has to be given time to see the benefits of the investment; I do not think you will see it immediately. All I can demonstrate to you is, really, two things: one is how much money we have spent over time and what the improvements are, and, secondly, my economists can show you the huge returns to the economy that we get for quite small increases in performance. For instance, at GCSE, there is a big economic return for performance at GCSE, at A level and, of course, at university. Therefore, I am confident that this money is worth investing, but I cannot prove to you—and some of your colleagues have tried to get me to say this before—that a given level of investment produces a given level of output. I would like to be able to do that, of course, but I cannot.

Q152 Mr Gibb: In 1990 36.8% of pupils achieved five or more GCSEs and that figure is now 52.9%. That is a 16 point increase in 12 years. I am assuming there is no grade inflation, and that is a significant improvement, but the rates of spending varied quite staggeringly. Just to go back to the third output measure—

Mr Normington: I think it is true that there has been increased investment in that area over that period. It is true it has increased in recent years.

Q153 Mr Gibb: Taking the third output figure, the reading level. Has the literacy and numeracy hour not had a bigger impact on that improvement from 57% achievement at level 4 at 11 to 75% than the increase in expenditure?

Mr Normington: It is only just beginning to come through to 16, if that is your question.

Q154 Mr Gibb: No, my question is about the third output figure you cited, which was the 75% achieving level 4 at age 11. Most people attribute that to the literacy hour rather than anything else.

Mr Normington: Yes, and that is so, but that did involve quite a sizeable investment in the training of teachers for that and preparation materials and so on. So there is quite a significant increase, but I entirely accept that not all improvements require substantial amounts of resources. If you looked over the period from 1997 or 1998 when we invested heavily in the literacy and numeracy strategies, I do not know what the precise figure is but it would be quite a lot of hundreds of millions of pounds that would have been put in to achieve those improvements—specifically into the literacy and numeracy strategies—I think you can say that that has brought significant improvement but investment by itself never works unless you have very effective management of those resources and of the staff by the leadership of the school, and the quality of the teachers is very important to that. However, as you

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said, the quality of teachers is related to what the rewards are and what the investment is in their training.

Q155 Mr Gibb: There is no doubt you need to pay teachers properly, but I am just questioning whether policy matters have more impact on raising standards than simply cash.

Mr Normington: You need to have very effective policies first, and you then need to ensure that you are funding those policies properly.

Q156 Chairman: You can have the best-equipped school in the world with the most beautiful buildings, but if you have not got the amount of discipline in a school with the good leadership and the good teachers that allows good teaching to take place in the classroom, then none of that expenditure is worthwhile, is it?

Mr Normington: It is absolutely the case that those things must go in parallel; you must have an effectively run school. If you simply build a new building then that will be wasted unless you have very good quality leadership and very good quality staff. Very good quality of leadership involves all the things you describe: a very good discipline framework, an absolute focus on raising standards, and you can get a long way even where buildings are falling down by very effective pedagogy, really, focusing on the quality of the teaching and learning process and individualising that to the child. You can get a long way with that but you need good qualified staff to do it, of course, and we have some evidence from a survey we did that actually there is a direct benefit from improvement in buildings. Clearly, you need decent buildings; you should not be teaching children in the 21st Century in buildings that are falling down, as some of them were, but there is some evidence from the survey and evaluation we have done that investment in building has a direct impact on the performance of the children and the performance of the staff.

Q157 Mr Gibb: I was intrigued by the remark you made to Jeff Ennis's former questions about teacher redundancies. You said that you did not know what was happening in terms of the numbers of redundancies and the LEAs did not even know what was happening, and yet you have £60 billion of money being spent, the vast majority of which is raised by national taxation. If an MP who takes an interest in education cannot get an answer to a simple question about redundancies, I just wonder how we are meant to know whether this money is being spent correctly.

Mr Normington: You should really judge it on the performance of the school, and that is the information that we collect and which is available for every school now in the country, both in absolute terms and in value-added terms. You can log on to a website now and actually compare the performance of similar groups of schools and see which ones are doing well and which ones are not. Schools can do that. That is a huge improvement in the information base about the performance of

individual schools which we have brought about because we think our focus should be on outputs. I am hauled before all sorts of groups to be complained to about demanding too much information from the system, and I have to judge which information to collect. We focused on performance and, therefore, we do not have information about redundancies because we have taken that judgment. We cannot go on answering those questions on everything.

Q158 Mr Gibb: Sure, but to whom are schools accountable? Are they accountable to us here or are they accountable to local councillors? Where does a parent complain? To which elected official does a parent complain if they are not happy with the way a school is functioning?

Mr Normington: It depends on the type of school slightly but they should, first of all, complain to the head teacher and governing body. They should first of all take—

Q159 Mr Gibb: Which elected official?

Mr Normington: The local authority is generally the first line of responsibility for the performance of schools in that locality, which is where you should go.

Q160 Mr Gibb: So if a person locally is unhappy that a school has very large class sizes but the head there has decided to put money into carpets and not class sizes, so there are 35 in a class, how do they get that changed?

Mr Normington: They either complain to the local politicians about that or they complain to the national politicians about it.

Q161 Mr Gibb: And the local politicians could change that, could they?

Mr Normington: Yes, because they have quite a lot—and this is the debate, really—of control over the use of resources and it is possible for them to change that.

Mr Gibb: I am told they cannot do that.

Q162 Chairman: I am conscious of time.

Mr Normington: The first answer is that there is a lot of autonomy for the school, and you should therefore take it up with the school. If you cannot get satisfaction there you should go to your local authority. That is what you should do. It would have to depend on the individual case. Many local authorities would think that they could change that, and I think it is a matter of determination, really. Some of them would say it is about “the lack of resources we get from national government”, of course.

Q163 Mr Gibb: There are two methods of accountability in society. Supermarkets supply the kind of food we want to buy and if no one goes there they go bust. In the state sector, if a school or a state provision is not providing what the public want you go to your elected officials and you re-elect somebody who will get that right. In terms of

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schools, one gets the impression that it is the head who determines these policy issues such as class sizes, whether or not a school has uniform or what the curriculum choices are and whether there is setting or not setting in a school. These are matters left to the head and the public has no say on those kind of policies in a state-run system. Is that a correct understanding of how it works?

Mr Normington: Yes, but it is within a framework of national standards against which the school is inspected, for instance, and held accountable. The National Curriculum is, in a sense, the basic set of standards and the school's performance in delivering those standards in the National Curriculum is inspected and the school is held publicly accountable for that, and the local authority and sometimes national government will intervene if that school is not performing well. Where we can—but actually not in many places, in reality—there are choices for the parents as to where they send their child. That is another incentive. So there are lots of checks and balances on the school but it is right that some issues are left to the professional judgment of the head teacher as long as it is within a set of standards against which you can judge how they are doing. I think, for all its imperfections, that is a reasonable system; a system of national standards against which schools are held to account. I think that is okay.

Chairman: A very last question from Jeff Ennis.

Q164 Jeff Ennis: In response to one of Nick's earlier questions you said how disappointed you were that the Key Stage 2 results had plateaued out. Given all this additional investment that has gone into schools since 1997 are there any other improvement indicators either at Key Stage levels or GCSE improvement levels that you can also envisage bottoming-out to the same extent as Key Stage 2 in the next three or four years?

Mr Normington: We are not planning for any of them to bottom-out. Indeed the resources are provided on the assumption that we will both re-start Key Stage 2 performance and, also, seek continuing improvements at other levels. The Chairman referred to one problem area which I think is a very high priority, which is participation post-16 and attainment post-16. That is one of our key weaknesses internationally and it relates to what the schools are doing in terms of driving performance. In a sense, although GCSE performance has been improving it is still not translating well enough into what people do afterwards. If you are looking for one area where we are having great trouble improving performance, apart from Key Stage 2, at the moment, it is there.

Jeff Ennis: Thank you, Chairman.

Chairman: David Normington and Stephen Kershaw, thank you very much for staying with us for this quite extensive session. We appreciate the answers you gave us. Thank you.

Supplementary memorandum submitted by the Department for Education and Skills

Q4 (Chairman): Progress on Individual Learning Account prosecutions and recoveries

The position on the ILA investigations and recoveries at the end of June 2004 is as follows:

Investigations

All serious complaints concerning ILAs have been followed up with 698 providers being subject to review by the Department.

The Department is continuing investigation of 266 learning providers. Of these 63 are with the police. We anticipate clearing most of the remaining cases by the end of August.

159 of the 698 providers were accepted for review by the Department's Special Investigation Unit. Of the 159, 108 providers were accepted by the police for investigation, which has, to the end of June, resulted in 93 arrests and charges being brought against 35 individuals. Six people have been convicted with a variety of prison, suspended sentences, community service and fines. 22 individuals are awaiting court appearances, and seven of them have submitted guilty pleas.

In one case a trial date has been fixed for October 2004, dates for six have been provisionally set for January 2005. A further two cases are expected to commence in spring 2005.

Recovery of public funds

The Department has recovered some £2.2 million of irregular payments. Additionally, irregular payments of £4.7 million have been stopped as a result of the investigation work. We are withholding a further £12.1 million from the remaining 266 cases and we do not expect to pay much of this amount, although this is dependent upon the outcome of investigations.

Q54 (Jeff Ennis): Information on the distribution of new teaching posts

The Department does not collect data specifically about the distribution of new teaching posts across the country. The ability of schools to create posts depends on local circumstances and decisions taken at local

government level. In general terms, experience shows that large increases in school funding will lead to large increases in the number of teaching posts on offer.

The Statistics of Education: School Workforce in England—2003 Edition published on 20 January 2004 and available on the Department's website at: <http://www.dfes.gov.uk/rsgateway/DB/VOL/v000443/WorkforceinEngland.pdf> does provide some information on the distribution of new teaching posts.

This book brings together all the statistics published by the Department in 2003 concerning the teaching workforce, including teacher recruitment, turnover, numbers in service, vacancies, pay, promotions, retirements, sickness and ethnicity. It also includes data relating to the number of support staff in schools and Further Education lecturers.

I attach two tables which are particularly relevant.⁴

Table 9 which shows the regions where newly qualified teachers were teaching in March 2002 and the comparable region where they completed their initial teacher training in 2001; and

Annex A2 which shows the number of full-time equivalent regular teachers in the maintained schools sector by local education authority and Region for January 1997 to January 2003.

Q64 (Chairman): Possible reduction in the number of primary teachers

Pupil demographics is an important factor in teacher demand trends. Falling primary pupil numbers have produced declining primary teacher numbers and teacher vacancy numbers in some areas over the past couple of years. Stephen Kershaw confirmed that projected pupil numbers are taken into account in the Department's teacher supply modelling work, but we cannot conclude that falling rolls will mean that we will need as many as 20,000 fewer primary teachers by 2010.

The figure of 20,000 appears to be based on the assumption that teacher and pupil numbers will both fall at the same rate between 2000 and 2010. Primary teacher numbers continued rising up to 2002 reflecting increased spending and the existence of growth policy areas such as Early Years and Special Educational Needs which offset some of the effects of falling primary rolls.

These growth areas might well continue to act against the falling school roll but it is difficult to forecast actual numbers. Local circumstances will also have an effect.

Q77–78 (Jonathan Shaw and Chairman): The underspend on the EMA pilots

In 2001–02 and 2002–03 expenditure on the pilots was still within the Department's Expenditure Limit (DEL) and was £47 million and £72 million less than originally forecast. Like the rest of Government, when genuine underspends emerge they are redeployed to meet other departmental priorities, either in the same year or future years.

There were particular difficulties in predicting EMA expenditure in the pilot schemes. The demand-led nature of the entitlement made expenditure volatile. In addition, it was particularly difficult to forecast spending in the pilots because national income figures needed to be mapped onto local areas.

For the national scheme we have thoroughly revised our modelling of EMA expenditure. In addition, we have agreed with the Treasury that EMA expenditure should become part of Annual Managed Expenditure (AME) from 2003–04, so that the risks around forecasting expenditure are not carried within our DEL. Expenditure on EMA for 2003–04 was £142 million.

Q100 (Mr Chaytor): Changing the way that accounts are presented

The Department will review the presentation of the information in Chapter Two of the Departmental Report to see if the Committee's concerns regarding openness and transparency can be addressed.

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⁴ Not printed. See *Statistics of Education: School Workforce in England*, 2003 Edition, Department for Education and Skills.

Wednesday 7 July 2004

Members present:

Mr Barry Sheerman, in the Chair

Mr David Chaytor
Valerie Davey
Jeff Ennis

Mr Nick Gibb
Paul Holmes
Mr Kerry Pollard

Witness: **Rt Hon Charles Clarke**, a Member of the House, Secretary of State for Education and Skills, examined.

Q165 Chairman: Secretary of State, as we allow people to settle down, can I welcome you and say that I feel doubly privileged to have been asking questions of the Prime Minister this time yesterday morning and you this morning; but I think you have got a larger attendance than the Prime Minister!

Mr Clarke: I do not know why that should be. Probably the chairing of the meeting!

Q166 Chairman: I think they were limited to passholders because of the security fears. Can I welcome you. Also, a word to the Press. Where were you last week when we did prison education? Not a single one of you; not one journalist. I have never known that ever. I was very upset that there was a lack of interest out there with prison education. It is a very important piece of our work and that is where many of the failures of our system end up. So I wish, when you go back, you would talk to your editors who can decide who comes to where as prison education goes on. Skills you hardly ever come as to well. We are going to do something about trying to make it more interesting. So, that is me doing my school master's bit!

Mr Clarke: Can I issue a series of complaints about the media as well, Chairman?

Q167 Chairman: When their mobiles go off I fine them £50, and I have never collected the money! Shall we get down to business. Secretary of State, I normally give you a chance to say a brief word of your own to get us started. Do you wish to do that or do you want to go straight into questions?

Mr Clarke: Not really. Just to say I appreciate the invitation and thank you for being here. We are covering a wide range of things but just to reinforce, I very much value the relationship with the Select Committee. You have produced a string of reports this year; you have got some more coming out even before we rise, I think, and we take your reports very seriously even if we do not agree with every particular.

Q168 Chairman: With what?

Mr Clarke: With every particular.

Q169 Chairman: Oh, with every particular.

Mr Clarke: We value the relationship and I welcome this as a further stage.

Q170 Chairman: Let us get down to business. I promised all sorts of people that I would very quickly mention one thing to you. It is the concern that has been running in the press over the weekend on bogus degrees. A lot of people are very worried, and when you scrape away at this problem it does seem more serious than we at first thought, that people can obtain pretty authentic looking degree diplomas with all the back up paperwork of exams passed, and so on. We do not have a registry of qualifications, and I know that this is a very difficult area. Is the Department aware of this and is it concerned enough to do anything about it?

Mr Clarke: We are. I am glad you gave me notice, Chairman, that you would like to raise this question. It might be helpful to the Committee if I set out what the legal position is and how we are dealing with it in response to your question, firstly the general background. It is an offence under section 214 to 216 of the Education Reform Act 1988 for a UK body to award a degree unless it is recognised by the Secretary of State to do so. Where a foreign institution operates in the UK it must make it clear that its degrees are not British. Secondly, the Business Names Act 1985 makes it an offence for any business operating in the UK to use in its business name the word "university" unless approval has been granted formally by the Privy Council. There are two main types of bogus operator that can be reported by the Department to Trading Standards under the Education Reform Act. These are so-called bogus institutions that claim to offer UK degrees or degree courses but are not recognised by the UK authorities to do so. Some of these also claim to be universities and use the word "university" in the UK without the appropriate permission to do so. There are also "degree mills", where operators sell what they claim are UK degrees over the Internet, but they are then found to be bogus degrees. The majority of these Internet operators are based overseas, which does make prosecution under UK legislation difficult. We refer cases relating to counterfeit degrees to the Trading Standards Department who liaise with the police. It is a matter for the police to prosecute organisations that offer counterfeit degrees; and section 15 of the Theft Act 1968 makes it an offence to obtain property by deception, and section 16 of the 1968 Act makes it an offence to obtain a pecuniary advantage by deception. We refer all potential breaches of the Education Reform Act 1988 by organisations that

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are based in the UK and those operating via the Internet to Trading Standards, who have responsibility for enforcement action. We refer all breaches relating to the use of “university” in title to Companies House, who have responsibility for enforcement action under the Business Names Act. It is an offence for any business operator in the UK to use in its business name the word “university”, as I have said earlier. It is also an offence to fail to declare ownership details on business stationery. With many unrecognised providers operating over the Internet and registered overseas, students need to take some responsibility for ensuring they know the status of degrees, and to that end our website (www.dfes.gov.uk/recogniseddegrees) provides information about recognised degrees and higher education institutions in the UK. It describes the UK higher education system, warns of the problem of unrecognised degrees and directs people to recognise the UK institutions found under the heading “Who can offer you degrees?” on the home page. So that is essentially the position. We get very few examples of complaints from students who have unwittingly enrolled at bogus institutions, and we are working together with the Home Office to produce a list of registered colleges which are “pukka”, if I can put it like that. I am sorry, Chairman, to answer at length, but I thought it might be helpful to place on record in front of your Committee what the legal position is; and we do take it very seriously.

Q171 Chairman: That is useful. Some of us met with the British Council yesterday to discuss that and other issues. Would it not be advisable that you and the British Council—you as a department—work with them to almost put a sort of “kite mark” in to make that more apparent to foreign students intending to come to this country?

Mr Clarke: That is precisely the reason why we are currently drawing up the list that we are which we intend to publish by the end of this year. In addition, I should say, quite apart from the activities to which you refer which are reported in the papers, there are some bogus institutions which have been set up to facilitate illegal immigration to this country by a variety of means; and so we have worked very closely with the Home Office and the Home Office has raided a number of these places to identify them for what they are, and we have come to the view, precisely as you suggest, Chairman, that with the British Council and the—I should say not just the British Council but also the association, particularly of language schools, ours as was and is now the new organisation, to work together for a proper “kite mark” in the way you suggest so that people cannot be fleeced because they do not have the opportunity of knowing what is really taking place.

Q172 Valerie Davey: Can I follow that up? I hope that the collaboration extends within the Home Office to the granting of visas so visas are only given for kite marked institutions?

Mr Clarke: That is precisely correct. When we get the list finally resolved, which we are working on at the moment and, as I say, will be finally resolved later this year, then the position of the Home Office will be precisely as you suggest, Ms Davey, that visas will only be granted to students going to those recognised institutions; and that is the path that we are now following to try and clear up what has otherwise been significant abuse.

Q173 Chairman: Thank you for that, Secretary of State. We have that concern. One of our inquiries is looking at the market for our university institutions overseas. We have recently had a couple of evidence sessions on that from HEFCE and from the British Council. It is such a valuable, can I call it, industry which rests very much on the quality of the provision for higher education. It would be serious if it was undermined.

Mr Clarke: I completely agree. Perhaps I could mention to the Committee, Chairman, that we are trying to give a higher profile to the international work that we do in the education field, both through our work with DFID but also with the DTI and the Foreign Office, and we are hoping to publish a policy document later this year to coincide with International Education Week in November setting out—putting the “world” in “world-class education”—how we can develop this much more positively in a variety of different ways.

Q174 Chairman: Are you using higher education income to balance the fact that . . . If you look at all the education spending in your Department, everything is rising quite robustly right across the piece until we get to HE, which is a little bit of an increase, but not much. When we started the whole debate about higher education and finance we talked about, certainly the Universities UK talked about, an £8 billion gap, and in the discussion over top-up fees we had a figure between £1.5 billion to £2 billion that would come through that source. Still leaving £6/£6.5 billion, according to Universities UK. Are you putting all your eggs in the overseas student market?

Mr Clarke: Not at all. I think if you went and talked to the universities, both the UK and the universities individually, they would acknowledge first that the funding stream has started to go up on a per student basis, albeit slowly, for the first time for decades and is beginning to go up; secondly, the additional income stream that we have suggested through the fee regime, which has now got royal assent, I am going to say; and, thirdly the research increases which we have identified, and I think a paper produced by the Treasury and our Department to be published shortly on science will indicate a continued very strong financial commitment in that area. All are sources of income for universities which, I think, will put them in a better position than they have been for a very long time. I do not accept the description that you give of HE spending being static while the rest of education is moving forward. I do accept the point that you make that we have

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given a greater priority to primary and secondary education. So it is in a relatively worse position than schools, but I do not think it is as bad as you suggest.

Q175 Chairman: But, Secretary of State, I have got the fees in front of me, 1998 through to 2003, 2004 and the change over that period: schools plus 41.9%; under fives plus 17.8%; primary plus 34.2; secondary plus 34.5; other plus 74.2; school capital, nearly a 100% increase; further education and adult (John Brennan will be very pleased with this) 53.2%; higher education 11.3. So it is pretty stark compared to those figures, is it not?

Mr Clarke: It is true that at the beginning of the Government, from 1997 onwards, we specifically did give priority to primary and secondary education, and that was an explicit act of policy because we felt as a government that that was where the priority needed to be; but I think in the second Comprehensive Spending Review 2002 settlement we gave a significant extra commitment to higher education which had not been possible earlier on, and, for the reasons that I said, we are committing now in the way that we are, but I make no . . . It was almost . . . I know you are a non-party in the role that you play, Chairman, it was almost a party political, the list of significant increases in expenditure through the course of this Government are in all aspects of education, which indicates how we have been able to invest in the ways that we have; and the fact that is, we do give priority to schools, and I defend that without any qualification, but we are now able to spread that progress throughout the system in the ways that I have described.

Q176 Chairman: Thank you for that. Can I ask one further question about that? Everyone is talking about the demographic change of our country; that we are having much less population in the primary and junior schools; the demographic curve is changing; we are going to have an excess of teachers in the primary sector and that is going to move through the system. As that moves through the system are you going to be able to, and will you want to, shift resources from that end of the spectrum through to higher education and further education where the bulge is still moving through? Is that part of the plan?

Mr Clarke: It is an entirely correct question, and I will confess to you, Chairman, in the confidence of this room, that the biggest difficulty we have with our CSR settlement, which is generally a good settlement which the Chancellor announced in the budget, is making sure we can properly resource the expansion which will come, for two reasons, in the post-16 sector, particularly in FE. The first is the demographic pressure that you indicate and, secondly, the fact that we are increasingly successful in our policies and more people are staying on at 16. So you have a double pressure coming in on the resource in those areas, and, as it were, the penalty of success in those areas is that we are under greater financial pressure, and that is what we have been wrestling with. At the bottom end of the demographic pressure we are continuing with the

position of saying that we are not prepared to fund schools above their roll now that the falling school roll is a real factor in the situation, and that does give pressures in a number of junior schools and primary schools in the country, particularly in certain areas. In that sense we are rolling forward the money. The money follows the change in the age group. I do not think it specifically is an issue for HE so much; though as we succeed in moving an expansion of the number of people who go into HE, then the resource issue will follow, but I think in both post 16 generally and HE in particular it is entirely possible to foresee resources coming in from other areas in the ways that we want to see. If you see some of the new foundation degrees which are being established, for example, there is a significant contribution from the relevant employers in that area, and we are hoping, of course, with our modern apprenticeships and the rest of it, to get significant employer contribution.

Q177 Chairman: There seem to be two opportunities that have been presented to this Committee. One is that as this demographic change takes place you can use the large number of primary school teachers that will be trained and find it more difficult to get a job, and are already finding that, but you could also use that in terms of the Early Years where there is a dearth of highly trained, especially teacher-trained, personnel in that Early Years situation. Is there any ambition to do anything in that area?

Mr Clarke: Absolutely. You are entirely correct. Without revealing significant details of our proposals, we have already announced the commitment towards extended schools which does bring together children's services in a wide variety of different ways and extends the capacity of the school to offer services to the local community in a wider range, but also we have announced the significant expansion in what we are doing for under fives, and we will continue to do that; and, as you correctly imply, both in terms of the physical building in the case of primary schools with less numbers of pupils and in the case of the staff, not just teachers but non-teaching staff as well, there is a potential there for ensuring that our whole under-five offer is improved in a very significant way, which is a major priority of the Government. So in answer to the dilemma which you indicate, my own belief is that as you get falling rolls at the bottom end of the age range that resource would get switched to under-fives and to the extended school function in that area rather than teachers, as it were, being redeployed into FEs, what I expect to be the main thrust of what happens.

Q178 Chairman: You have just said that this is an all party Committee, and it is, and our job is to look at the way in which tax-payers' money is spent in a way that gives value for money. That is one of our central missions. When we look at expenditure on education, many of us every time we see an increase in expenditure throw our hats in the air and say, "Hurrah. That is really rather good. That means better achievement of people", and so on. The Treasury certainly boasts, and has boasted fairly recently, that greater expenditure leads to higher

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achievement in education, but the figures do not really bear that out very well, do they? If you look at the run of figures over the last decade, there are periods in which low levels, relatively low levels of expenditure on education produce very good results, whereas periods of high intensive expanding education expenditure do not achieve very much better?

Mr Clarke: My view is that higher spending and higher investment is a necessary but not a sufficient condition for education improvement and performance. It is a necessary condition because the number of teachers, non-teaching staff working in a particular school or college is a significant factor. Training of teachers, continued professional development, which costs money, is a significant factor, so that teachers improve, and basics like the facilities that are in a school, the ICT that is available and so on, can reinforce performance, but it is not a sufficient condition because it is entirely possible to have all that but for it not to be focused properly on improving educational standards in the way that we all want to see, and any survey of different schools throughout the country will show that there are schools with similar social issues—free school meals, for example, or resources being broadly similar—which are achieving dramatically different results for their children, and that is why we have to focus on a reform agenda which tries to raise that performance and carry it through. I am not one of those who believes you simply pump in more money and that solves the problem—I do not think it does—but I do think you need more money for many of the things which obviously we see around.

Q179 Chairman: But it is quite surprising, when you look from 1990–91 to 1994–95 and we look at the five GSE grades A to C, the improvement was plus 6.7 in that period. The increase in real terms was 11.4%. So you get an 11.4% increase in expenditure, a 6.7 increase in improvement in grades. Then you move to what I think is the most interesting middle period, 1994–95, and you see only a 3.4% increase in current expenditure in real terms, but you get a plus 4.4 increase in grades A to C. That is the central conundrum. Then the latest, 1988–89 to 2002–03, you get a 5% increase—not much more than the previous period—a 5% increase in grades at A to C, with a 31.6 increase in expenditure. How do you explain that middle band?

Mr Clarke: I am noting down the figures as you go, but, simply by reference to what I said earlier, I do not think there is a direct linear relationship between expenditure and performance. I simply do not think that is the case. If you take the different faces that you are describing and the description you have just given, the first phase you are talking about, I would argue, was a period when there was a significantly demoralised education in the world which existed, which did not feel motivated and positive about what it was trying to achieve, whatever resource went in. I think the period after Labour was elected in 1997 led to an increase in morale, but also an increase in concern. We were making many changes which gave rise to concerns in some people, and I

think we have now moved to a situation of steady progress and stabilisation which I think is delivering the kind of results you are describing.

Q180 Chairman: But the low morale period produced the best result in terms of value for money. John Major's years, only a 3.4 increase in expenditure, gave a 4.4 increase in grades?

Mr Clarke: I was taking that as half being the Conservative period and half the New Labour Government coming in, but I may be wrong on what you are saying. It is difficult to have this debate without the full figures we are talking about. I think the general point I want to make, Chairman, is that money is important, but those who say that money is the solution I do not agree with at the end of the day. Money is an important part of the solution, but it is not the only part of the solution; and there is evidence that money not being spent in the best possible way, which we try and deal with in various respects and we try and improve where we are, which is why we signed up to the Gershwin Proposals on Efficiency, and so on, to try and get the best value out of our money, but the single most important factor in delivering our result is the morale, engagement, capacity of all the people who work in education who are the vast majority of the expenditure that we do. That is why we have to focus on that in particular.

Q181 Mr Gibb: Secretary of State, I want to follow on from the Chairman's questioning, because the issue here is: is this expenditure properly focused on improving attainment? And I was interested in your answers to his questions about expenditure: "It is a necessary but not a sufficient condition." I totally agree with that—you do need expenditure to pay the proper salaries to teachers so you get the quality of teaching that we want in our schools and continue to have in our schools—but you also said that you have schools with broadly similar social intakes, free school meals, etcetera, that are getting widely differing results. My question is: how are you focusing that money to ensure that those schools that are not delivering these results do?

Mr Clarke: Two things. Firstly, money and, secondly, management focus, if I can put it like that. As far as the money is concerned, there is a whole string of funding streams that we established, Excellence in Cities being the well-known one, the Mutual Incentive Grant, the behaviour money, which is focusing on some of the parts of the country and the types of schools where there have historically been the lowest results. I was very pleased, for example with the GCSEs last year, to see that schools in those areas were doing better than the average and indicating some success simply looking at the money aspect of what has gone on. Secondly, in both our Key Stage 2 and Key Stage 3 strategies, we are focusing directly and explicitly on the particular schools which are performing at less than the level they ought to be and less than the medium for their particular free school meal bands. So we are identifying in a particular LEA which are the schools which are performing less well than they ought to be

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and providing training and management support to enable them to address the steps they have to take to try and move it forward. So we do try and target in both those ways. One is a slightly blunt instrument; the other is much more focused on the areas where we are not getting the best “bets for our bucks”, if I can put it like that, in terms of educational output.

Q182 Mr Gibb: In the Labour Manifesto in 1987 Labour said, the Government said, they were going to concentrate less on structural changes and much more on obtaining within schools, and things like setting was one of those issues. Do you think you have made improvements in the amount of setting in secondary schools?

Mr Clarke: I do not know what the figures are at the moment. I would be pretty surprised if there was not more setting now than there was then.

Q183 Mr Gibb: There is slightly more.

Mr Clarke: We have tried, in a variety of ways, to encourage those kinds of approaches. The house system is something that people have talked about as well from that point of view. So there are areas there, but at the end of the day this is a matter for the professionalism of teachers. The question for us is how we encourage and develop the professionalism of teachers in each of those areas, and new institutions like the National College of School Leadership were particularly defined and created in order to try and promote those types of approaches in a much more creative way. I was talking yesterday, by chance, with somebody I met at the Lord Chancellor’s party, a bursar of a small primary school, who talked about the course she had been on at the National College of School Leadership and her ability to transform the finances of this small school and get more resource and more value for money. She said she had saved £28,000 in the small school which she then could spend on more positive things. That is a small example, an anecdotal case of course, of the way that institution, the National College of School Leadership, had instantly improved performance and value for money.

Q184 Mr Gibb: I do not want to overdose on this issue: I will just ask one more question on the setting issue. You did say in the Manifesto—you said this was an issue for the professionalism of teachers, but I wonder why it was in the Labour Manifesto to do something about setting, and 60% of lessons now are still in mixed ability classes?

Mr Clarke: The reason why we put it in the Manifesto is that we stated that is what we thought ought to happen. We then asked ourselves the question, having stated it, do we try and do anything to encourage that? And so we do. We set up organisations like the National College I mentioned, like the Key Stage 3 strategy—a set of different initiatives which are interventionist, and I make no apology for that, because it was necessary to drive things forward in that way and they made a positive difference. Do I think we were wrong in what we did? No, I do not. I think it was the right thing to do. Do I think we should pass a law and say all schools shall

be set in ways A, B and C? I do not think that either. I do not think that would be an intelligent way to go, but I think it is perfectly reasonable for a political party to set out to the electorate how it wants to see improvement in the areas of key public services.

Q185 Mr Gibb: You mentioned Key Stage 2. I wonder whether we are getting value for money in Key Stage 2 as well in recent years. There is no doubt the literacy strategy did improve reading in the Early Years, but then it seems to have stagnated from 2000 onwards with 75% of 11 year-olds achieving Level 4. Is the money going into the right areas in primary schools as well? Why have we got this plateau of 75%?

Mr Clarke: We think it is going into the right areas, but you are quite right, the flat-lining in the main indicators is perhaps my single greatest area of concern across the whole of the policy of the department, and we have worked very hard to try and improve it. There are some technical explanations for that, but, even so, that does not reduce the power of your point in any respect whatsoever. We have worked very hard in precisely the way I have described to target the lower performance schools in their particular area and I hope we will see improvements. The only thing to say is we made a significant improvement right away and we are now dealing with groups of children where the issues are more difficult to resolve than was the case right at the beginning. There was a serious low attainment point and large numbers of children throughout the country were not getting to those basic levels then who, with a relatively small adjustment, were able to do that, and so literacy and numeracy made that change. We are now moving into groups of children where that is less easy to achieve and so it will be a long and difficult process to be able to achieve what we have to do, but I do not think that that should move us towards a cynical approach that says there is nothing we can do about this, we just leave it to the luck of the gods, because the responsibility we have to the children who are not easily performing at KS 2 level is fundamental, and many of our key problems in older people now with literacy and innumeracy in large numbers is due to failures in the past, and I simply have an absolute responsibility to try and get this right. We are ready to say maybe we have done it wrong in area A, B or C and listen to what people have to say to take it forward, but what I am not prepared to concede is that we should not somehow be trying to press and drive this forward in the strongest way that we can. There is plenty of room, as I say, for not trying an argument about whether we are doing it in the right way, and I am happy to engage in that discussion, but the argument that somehow we should not have targets or we should not be involved in this approach, just let’s leave it to whatever to come round, I cannot identify with.

Q186 Mr Gibb: Where do you stand on the phonics on language to date?

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Mr Clarke: I have had interest both in my constituency in Norwich and a number of people are arguing in this. I have listened to the presentations that are made. I have put all those who have made representations to me in contact with the people in our department and elsewhere who are dealing with these matters, and there is a debate that is taking place. I do not think it is appropriate for me as Secretary of State to say that this is the precise teaching method that should be used, and, to be candid, I am not at all sure that I consider myself professionally qualified to say this is the right way that it should happen. That is why I said what I said earlier. I welcomed genuine discussion about what was the best way to deal with it, but the professionals at the end of the day have to resolve the best way of making progress.

Q187 Mr Gibb: Coming back to expenditure, the future figures for expenditure do not look as high as the last few years: 3.8% in 6/7, 3.5% in 7/8. Will this mean that you will not have the necessary expenditure to continue raising standards?

Mr Clarke: I think two things. We certainly will have the necessary expenditure. We have got money there. There is an increase in real terms, as you have just indicated, coming through, and that is what is needed and what is necessary, but—it is the point that I made to the Chairman—if I were relying on expenditure alone, I would say we will make relatively slow progress. So I have to rely on more than just expenditure. I have to rely on improving professional standards, reform and all those areas that carry through, and that is precisely what we try and do. The second point is that getting value for money out of that expenditure is very important and making sure the money is well spent; and there have been many representations to us that we ought to be trying to give heads or governors of schools a much clearer sight of how they can use their spending to improve results. That is why the Prime Minister announced at the National Association of Head Teachers Conference at Easter that we were committed to three-year budgets for schools at the same time going with the school year, because we felt, on the basis of a large number of points made to us, that using that money in a very positive way and being able to plan ahead as to what you achieve will be a major part of the change. So I think the money that has been allocated is certainly sufficient for what we have to do, but it is a question of improving where we use it.

Q188 Mr Gibb: Finally, would it be better value to fund all schools directly rather than through local education authorities?

Mr Clarke: I do not think so myself. I think the idea of trying to fund 26,000 schools by a National Funding Agency is difficult to see how that would work well. I think local authorities have a very important role to play, both in strategic leadership and in allocating resources, and many of the newspaper reports recently about what we are thinking about is wide of the mark. We want to give a very strong role to local authorities in what they do

and carry it through because the idea that the Department for Education and Skills could press a button here and sort it out there I think is the wrong view. So I think local authorities should continue to be the vehicle through which education is funded in that way. What I do think is that we want to achieve certainty in the funding regimes, which is why we have had the passporting regimes thus far; and I am in favour of strengthening that certainty that can be offered by ensuring that money that is intended for schools does go to schools and then to strengthen it even further by establishing a three-year budget regime for each school so that they can use the money in the way you have described; and that does require, or imply, I should say, some changes in the balance of the relationship. Some people have argued, as you imply, I do not know if it is the Conservative position, that there should be a National Funding Agency for all schools. I do not myself think that is a feasible way of doing it in an effective way. I think local government should be and should continue to be the system by which schools are funded.

Q189 Chairman: When we did our inquiry into school funding some time ago we suggested that your response had been—we criticised you because you had tried to pass the buck on to local authorities. We thought, very clearly, it was not local authorities, and the evidence that has come in I think strongly suggests “It was not their fault, Guv”, it was your fault as a department. We also suggested that your response had been a bit of a sticking plaster job that would last perhaps for a year or two but the same problems would come back to haunt you. Are you satisfied you have now got it right?

Mr Clarke: Half. I did not accept your criticism at the time and I do not accept it now.

Q190 Chairman: Which one?

Mr Clarke: The one that, “It was all my fault, Guv”.

Q191 Chairman: What about the first part that you did try and blame local authorities, did you not?

Mr Clarke: Not really. I said—I can’t recall the formal—I will send you the text, if you are interested, but what I said at the time was that the funding of schools was a shared responsibility between local government and the DfES and that both bore responsibility. That was interpreted in some sources as me blaming local government, which I did not think was a fair thing to say.

Q192 Chairman: The Deputy Prime Minister seemed to take that view, did he not?

Mr Clarke: The Deputy Prime Minister is a very wise man! I am glad to say we have a full and frank conversation on many issues at many times, but, taking your question seriously, I think it was extreme to say that it was a sticking plaster job. The fact is we have achieved a situation where funding for this year (2004–05) is, broadly speaking, stable, that local government has worked well with local schools in their areas to eliminate deficits and carry them through; and the funding that we have given

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for that has been used in general very constructively and we have got to a situation where people have felt for 2004–05 we are on a reasonably stable basis. We then have to go to 2005–06, where precisely the same issues come around, as to whether we can passport effectively how we carry it through and what kind of minimum guarantee we establish and take it forward, and we will see how that goes. I am confident when we make the announcement about 2005–06 we will be able to carry it through again based on that partnership between the Department and local government. You are quite right; I think it is quite a ramshackle system in the way that it operates and does not give schools the certainty that they want about where they are going, which is why the Prime Minister announced that we want to move to a change, as I say, of three-year budgets which are based on the school year. I intend that we will announce proposals to get to that state of affairs, so that in place of the—I do not accept the word “sticking plaster”, but—

Q193 Chairman: You said “ramshackle”. They are pretty close, are they not?

Mr Clarke: Okay. You are the engineer more than I, but let’s just say ramshackle is the word I used and sticking plaster is the word you used. Sticking plaster implies first-aid, ramshackle implies it is a structural problem that is there in the system, and I do not know anybody who, in defence of the current systems of local government finance, is perfect and it certainly has led to issues for schools, which is why we want to make proposals to change that in the way that I have implied and as set out by the Prime Minister over Easter, and we will make proposals in that direction to try and give schools the certainty, first, that money will come through, money intended for education does come through to education, and, secondly, to ensure that each school has its own budget on a three-years basis where it can plan and develop and see where it is going, and that is the essence of where we are. Some interpret that as a proposal to take local authorities out of education. That is not the case. We believe that local authorities have a very major role in education both in relation to the strategic role and in relation to distribution locally and in relation to school improvement, and, most important of all, in the development of the children’s trust approach, which is central to everything that we are doing; and I will set that out very clearly when I make a statement on that shortly.

Chairman: I want to stay with school funding for a second and bring Jeff Ennis in, and then I will go back to the spending budgets with David Chaytor.

Q194 Jeff Ennis: Thank you, Chairman. Charles, in terms of the schools funding issue, David Normington in recent evidence to us indicated that obviously a number of schools have been suffering from a deficit budget situation, and he quoted that the latest statistics from March 2003, before the funding problems occurred, showed that we had approximately 2,500 schools nationally in a deficit situation. Has that situation stabilised now since March 2003? Has it got better or worse?

Mr Clarke: It has improved significantly, because what we did was we provided a fund to all local education authorities which indicated there were schools in the position that you described, Mr Ennis, and asked them to discuss with those particular schools a funding package which would bring them out of deficit either in one year or two years to get them to a state of affairs where that issue could be addressed. All local education authorities have now done that, and they have addressed the situation in their area and have agreed plans with the schools in their locality to bring them out of deficit. In my own county, Norfolk, for example, the county council made an announcement just a couple of weeks ago about what the exact amounts of money were for each school to take them out of that situation; and the highest amount of money given to an individual school was nearly three-quarters of a million pounds, which is a very significant amount of money to deal with the situation and take it out, and certainly my county council has addressed the question with the money we provided very constructively with local schools. I believe that is happening throughout the country with every LEA, and is therefore significant in reducing that March 2003 figure which you set out. That is not to say there will not still be problems, but I think we have been able to address what has been a systemic problem, in some cases acute in some schools, in a very strong way.

Q195 Jeff Ennis: We have already spoken about the Government plans for increased expenditure up to 2005–06. Will schools funding be allocated after that according to the Formula Spending Share, or will you be looking for some other mechanism for distributing?

Mr Clarke: Principally by the Formula Spending Share the idea is to get to a state of affairs where the formulae reflect what the overall position . . . I may have misunderstood the question. Are you talking about the allocation to individual schools or the allocation to local education authorities?

Q196 Jeff Ennis: Both actually.

Mr Clarke: Let me take them separately. Let me deal with the allocation to local education authorities. We are hoping to bring together the Formula Spending Share allocation for LEAs on the various formulae we know together with our standards fund, which are more targeted, into one stream of funding where everybody knows where they are, rather than having separate bidding streams; and so it will strongly reflect the Formula Spending Share but it will not only be about the Formula Spending Share because of the targeting, which I was referring to in my answer to Mr Gibb earlier on. Secondly, when you get down to the individual schools the local authority will have its own local formula for distribution locally and will be constrained in that by some of the requirements we place about funding schools with particular difficulties and particular issues. So that will not be a pure formula locally, it

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will reflect the priorities which national government is setting in those areas; so both those areas will have a combination of a formula plus a targeted funding.

Q197 Jeff Ennis: We have already referred to the fact that over the next three years the actual real in terms increase in schools funding is going to drop quite drastically by 6% in 2005–06 to 3.5% in 2007–08 and Nick Gibb asked a question on this; but in my perception, will that be perceived, do you think, as a cut when it comes to the heads allocating the budget for those future years, and do you anticipate that there will be further problems with schools funding because of this, and what advice will you be giving to schools to manage expectations on budgets?

Mr Clarke: Firstly, I think it would be absolutely wrong to describe it as a cut. A cut is a minus figure in real terms, and if there were to be a cut in real terms that is a real issue of concern. The only areas where that could conceivably arise without minimum guarantees is in areas of falling rolls, and, even there, we have established a basic bottom line, even in those situations, to prevent cuts taking place. So anybody who described it as a cut, in my opinion, would be seeking to be deliberately misleading. Secondly, we have had unprecedented—I use that word advisedly—increases year on year in recent years in school funding. I have never expected that that would continue indefinitely at those levels, and I think anybody who did would be mistaken. Thirdly, I think there are serious issues implied in the last part of your question about the management of the resource and expectations, as you rightly say. I myself think that one of the key areas, an area, by the way, Chairman, for which I have taken responsibility because it was a mistake that was made, is in raising expectations about what the money—what the financial situation would be so that people somehow thought you could go on, and go on, and go on without facing up to that situation. I believe the financial management regimes that we have put in place since the issues last year mean that is far less likely and that schools will be able to manage their situation through, but I again come back to the point: if we are able to establish three-year budgets in the way that I have said, that will make it much easier for schools to know where they stand. At the moment they are not quite certain what is coming next year. They hear things. There is a contingency. “Maybe we should be prepared to lay off a teaching system to whatever it might be because we do not quite know what is coming through.” Then a bit of transitional funding comes up.” That’s okay”, so there we are. It is not a satisfactory way of proceeding, which is why we need to get on to the proper three-year budgeting arrangements that I was describing, and that is what we will do.

Q198 Jeff Ennis: One final possibly wider question, Chairman, moving away from schools funding. The Department itself, Charles, has become notorious over recent years for quite large under-spends at the end of the yearly budget situation. There has obviously been a variety of reasons for that

occurring in each of the different years. Are we going to be in a situation again this year where we have got a significant—

Mr Clarke: I do not think so. I have been working very energetically to reduce the idea of under-spend. I am strongly of the view that money exists to be spent rather than to be under-spent, and I know that is the view of the Committee. There are perfectly good reasons why it arose at each juncture, and I understand those and I make no criticism in saying so, but the Department is working very hard indeed to ensure we are not in that position. I hope very much that we are not; in fact I would like to say I am confident that we will not be in a position of repeating that state of affairs.

Q199 Mr Chaytor: Secretary of State, does the Department still believe in evidence-based policy making?

Mr Clarke: Yes.

Q200 Mr Chaytor: What is the evidence for the expansion of the academies?

Mr Clarke: The evidence is that . . . Well, on that basis there is very little evidence, because the academies are so new. The evidence that exists is that where there has been very low educational attainment, and in all the academy areas it is particularly predicated on essentially educational failure in the past, that is what the academy is all about, what you need is, firstly, a transformation, which means often a new school with new leadership and new approaches, and, secondly, very substantial resource, and, thirdly, a confidence by people in that community that education is important by going for world class facilities. In each of those statements, without citing chapter and verse, I think I can prove to you that there is evidence for the correctness of each of those assertions as being major aspects of educational transformation where the failure has been so acute. As I say, the change, the leadership, the commitment of resource, the status given to education. On each of these I think there is evidence. In the city academy programme we are seeking to bring those together. If you then ask: what is evidence of the success or otherwise of the city academy programme so far? It is very little. I think I am speaking, I think I am right in saying there are only 12 schools that are currently up and running, and none of them have been long enough to make a systemic assessment of what has happened in those areas. Some of them have had significant difficulties in getting started, as one would expect with a programme which is as radical as it is. The CTCs when they were around, and some of those are coming into the academy regime, have had a genuine record of success in their particular locality, which I think there is evidence for what they have done. They are not the same as the academies but for a variety of different reasons, but I think I can claim quite fundamentally that the principles of the academy form of organisation in dealing with areas where there has been immense educational failure and deprivation are well-established by evidence, and I hope that when the city academy programme

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has been going for a few years the evidence of how it is run will reinforce that; but I concede to you that that is a hope at this stage rather than evidence I can offer.

Q201 Mr Chaytor: But the 2004 departmental report says the first assessment of the first the wave of academies will be published later in 2004, and yet today the Prime Minister is going to raise the expansion to 200 academies. Would it not have made more sense, if you do believe in evidence-based policy making, to wait for the assessment of the first wave before announcing the expansion?

Mr Clarke: You can argue that. The problem about any process of policy announcement is there is a timetable in which one is set, and we, in my opinion quite rightly, are going through a process of announcing a five-year programme on the timetable that we are. Does that mean we should postpone that announcement in general in every respect of where we go on the CSR process? I do not think it can, because we have a programme of seeking to make progress in those areas. If you say to me that when the evidence exists in this form we should revise where we are, of course we should take account of evidence as it comes through, but I do not think we should simply postpone any announcements about it.

Q202 Mr Chaytor: It puts a question mark over the validity of the assessment later this year. It is now inconceivable that the first annual assessment of the academies programme would highlight any major weaknesses, because that would undermine the whole policy of expanding to 200 academies, surely?

Mr Clarke: No, it is not inconceivable at all, because the assessment. . . It would be absolutely foolish for a government not to say in truth what the situation was with a programme, in this case the City Academies programme. I could point, you could point to areas where there have been significant difficulties in the academies getting going and starting. That is undoubtedly the case, and that would be the case, by the way, for any new school in those areas of major educational disadvantage. You are talking about an absolute transformation. Does that lead me to have any lack of confidence in my ability to make the changes? Not in the slightest, but I think it would be foolhardy—and I certainly do not do this and nobody else does this either—to say, “Here is the magic wand I wave. We bestow on this area where there has been educational deprivation for decades a solution”, the City Academy in this case, “which will suddenly at a stroke resolve all this.” It does not happen like that.

Q203 Mr Chaytor: If the report later this year does identify strong weaknesses, will that lead to a change in government policy about the expansion of the programme?

Mr Clarke: It will certainly lead to a very serious assessment of what the Government is doing in the programme, and the way in which the programme works, as it should, and that will be the case in any particular areas to keep us up to date about our KS

2 flat-lining. When we analyse the reasons for that it goes through, see what happens this year, we will look very carefully at what our policies are in that area. It would be completely foolish not to so; but does that mean we are frozen and say we can nothing about anything at any given point? I do not think it does.

Q204 Mr Chaytor: One of the other things the Prime Minister is likely to say today is that over-subscribed schools will be allowed to expand. If over-subscribed schools are allowed to expand, under-subscribed schools must inevitably contract. How do you reconcile that policy with your concern to get financial stability across all schools?

Mr Clarke: There is a general constraint right across the whole system on resources which have to be allocated at the level of the local authority whether it is for capital development for new places, or whatever it might be, or, indeed, for revenue, but the system already in its revenue reflects where students are, and so schools do fluctuate in size, I think quite rightly, to meet what parental assessments are of the schools in their particular area. The question is whether there should be any capacity for schools which are doing well to expand if the resources are available. I think that should be the case. Do I think it will make a dramatic difference in any given locality, in Bury, for example, and Norwich? Not very much actually, but I think having that flexibility, of course, is beneficial.

Q205 Mr Chaytor: Surely, if there is a 10% expansion in some schools there must be a 10% contraction in other schools. There is a fixed number of pupils?

Mr Clarke: Yes, of course.

Q206 Mr Chaytor: So how is the funding formula going to protect the schools that are contracting?

Mr Clarke: The funding formula already deals with the situation exactly as it has been for years: that the funding is for less number of students. That is the fundamental principle that is there, and that is right, in my opinion. I am not aware of any significant argument that that is the right way to do it, and that remains. The question is whether the schools that are doing well should have the capacity to expand or not in those circumstances. I think there should be much more flexibility in the system than there now is to allow schools to be able to expand in those circumstances. But, you are right, any given expansion has an implication on the rest of the system, not 10%, because if you have got one primary school expanding in a local authority of 30 primary schools, or whatever it might be, the 10% increase in numbers in that particular primary school does not mean a 10% decrease in numbers in the rest of the system; it means, whatever, a third of the 1% reduction in the numbers across the system. So it is the balance that arises that has to be addressed by the organisation committee, and the local authority in those circumstances, and that is right.

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Q207 Mr Chaytor: The fact remains that a contracting school is going to see a reduction in its budget.

Mr Clarke: As happens exactly now.

Q208 Mr Chaytor: Yes, but it is going to be exacerbated in the future because you are allowing greater flexibility.

Mr Clarke: Firstly, it is exactly what happens now. Secondly, yes, because we have allowed greater flexibility in the way that I am suggesting, it will be exacerbated, as you describe.

Q209 Mr Chaytor: Will there be some new mechanism to give stability to contracting schools?

Mr Clarke: Certainly, there is the mechanism that exists at the moment. When you say “a new mechanism”, the implication of your question, Mr Chaytor, is that there is a qualitative shift in the proposal to allow schools to expand compared to the current status quo, and that is simply not the case. There is a shift because it is implying greater flexibility, but it is not a qualitative shift in what happens. It is already the situation. I do not know the situation in Bury, but if you look at school numbers at schools in Bury—actual school numbers I mean—they would already be going up and down according to a series of different factors. What we are saying is put in more flexibility, which I accept exacerbates the changes which take place but I do not think it takes it on to a new plane, and nor do I think it is anything like as dramatic as some fear, but having greater flexibility in the system will make it work better for the parents.

Q210 Mr Chaytor: Lastly, Chairman, can I ask does anybody in the department know the cost of administering the current admissions system across the country?

Mr Clarke: Perhaps I can ask a question back. I do not know if we gave evidence to your Committee on that in the inquiry you have just been doing. If we are asked that question I do not know the answer to the question as you ask it now, but I am happy to write to the Committee about it.

Q211 Mr Chaytor: The answer to a PQ I submitted just a few days ago was that no, the department does not collect that information. So the issue is, should somebody not be assessing what it costs to manage the current admissions system?

Mr Clarke: I think it is a very interesting process to do. We are waiting for your Committee’s report on this very issue. We will respond carefully when it comes around. I am grateful to you for reminding me of my answer to the question that you have asked. The reason why we do not know is presumably that this is a matter which is run locally in the way that we do and should reflect the data in that way. You could argue we should but there is an implication in terms of resource and bureaucratic

burden which applies to that which is presumably why we have not done it so far. I will look at it and I am happy to consider the point.¹

Q212 Mr Chaytor: If the Prime Minister today is going to announce that more schools can become their own admission authorities, would it not be a good idea to know what the cost of administering the system is before making such an announcement?

Mr Clarke: To some extent, but I do not think I will overstate that point because every school will be bound by the code of admissions; no school will be allowed to be selective in its entry and in the way that it operates. We are not going down the lines other political parties are going down in saying that every school should be its own admissions authority and they will establish whatever selection criteria it wants irrespective of any other situation. In fact, we reject that line completely; we think it would be quite wrong to go down that path. So, again, I think, the implication is nothing like as substantial as you may be concerned about, but I will look at this cost issue and see if there is an issue there that needs to be resolved. I suppose I would want to say that we think the adjudicator system has worked relatively well in various circumstances, but I am genuinely, Chairman, waiting for the report of the Committee. You complained on the *Today* programme last Friday that we had not shared the five-year plan with you in the process, and I took the rebuke in good heart, but I am in the same position as well with what you are about to recommend on selection admissions. As I do not know what you are going to recommend I cannot comment in detail, but the commitment I can give is the one I gave right at the beginning, that we take it very, very seriously and will respond properly, including on the issue of costs that Mr Chaytor has just raised.

Q213 Chairman: Secretary of State, we could whet your appetite in the sense that there are unintended consequences. What people do want is clarity on what the Government’s policies are. If the Government is elected on a policy of not expanding grammar schools and we see an allowance for grammar schools to change from—when we came into power—117,000 pupils to now over 150,000 pupils (in the age group that is a 3.1% to 4.6% growth in grammar schools) people might say that was not really what we thought the Government intended in 1997. That is, perhaps, an unintended consequence of allowing institutions to grow willy-nilly.

Mr Clarke: That is a reasonable point for the Committee to make. As I say, I shall await your report and study it carefully when you do publish on that question. As far as the general issue of clarity is concerned, I could not agree more, which is why we are intending shortly to announce as clearly as we can what our policies are for the next five years so that people can make their assessment of them and,

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in particular, I hope, this Committee will make its assessment of them, with its strengths and weaknesses in whatever way you think right.

Q214 Chairman: That has whetted your appetite?

Mr Clarke: It has, yes; I am looking forward to it.

Q215 Jeff Ennis: Just as a supplementary to follow on your answer, Charles, in terms of the potential expansion of academy schools, I can understand and I agree with the logic behind that expansion as you have outlined it to us. Indeed, in relation to my two local LEAs, Barnsley is looking at the possibility of establishing an academy in Mossborough and Doncaster are looking at the possibility of establishing an academy at Northcliffe, Conisbrough. So I can understand the logic as you described it. I really want further reassurance from you, Charles. If I can put a hypothetical situation to you, if you had an LEA which had a mixture of reasonably good schools and one or two failing schools, where the academy scenario might fit into part of the area, if the LEA came forward with a grandiose plan to close all the secondary schools and create all new academies within their LEA area, how would the DfES react to that particular model when that came forward?

Mr Clarke: I would like to agree simply on the resources basis but it is not remote from reality. The London Borough of Hackney is not a long way from the situation you have just described. It is committing the London Borough of Hackney to trying to get a significant number of city academies in the borough for exactly the implication that you are giving there, and part of our whole approach to the London Challenge has been to encourage a total renewal of the educational offer that is available in those areas. I think I want to say two things, if I may, Chairman. There is a confusion in the public debate about this and one of the problems about it, and I am not criticising the media on this occasion—I do that in private—is that there has been a series of links going on which confuses the two strands. Strand one is the city academy programme which I was trying to describe in answer to Mr Chaytor, which is, as it were, a bazooka which is designed to transform education opportunity in areas where education attainment has been very low, and you have given a couple of examples in your area of areas where that is needed. There are resource restraints on that, which is a serious issue to be addressed, and we are trying in those areas to say we really have got to turn this around because of years of failure, and we think the way to do it is in the various answers I gave to Mr Chaytor in the form of a city academy. That is one strand of discussion, to which the Government is committing. There is another strand which is about freedoms of schools and the way they can operate and the decisions that they take. You could describe those as academy style freedoms, if I can put it like that, but it is about principally giving schools the ability to really focus on the problems that they have to solve—yes, working in collaboration and working with the rest of the community, and so on. Something we do want to see generally across the

system is schools able to take those freedoms, and the one that is most significant is the ability to have a three-year budget and move it forward, but one can imagine others as well. Those are two separate things which have got confused in the word “academy” in terms of the debate that has been flowing around. I am grateful for the opportunity to just try and set out as clearly as I can the difference between these two things. In neither case are we talking about the development of a new elite of schools, which some people have been concerned about—that there would be some group of schools which was a new elite. In fact, my first act as Secretary of State, as the Committee will recall, was to open specialist school status to all schools that wished to do so rather than being in competition with each other, precisely because I wanted to see it as a device which could mobilise all schools rather than create a sub-group of schools which was an elite of that kind. I am absolutely committed to the view that we have to transform schools and performance across the range rather than saying there is some group in that area. You have not used this word but it is perverse to think of the city academies as an elite in that sense, because though they are an elite in the sense of significant resources, and so on, they are not educating an elite in any sense of the word whatsoever, they are educating people from the poorest performing parts of the country in what they do, and that is what they are trying to change.

Q216 Jeff Ennis: I am a bit nervous about that reply in terms of the fact that it would be possible, then, given the response you have just given to me, for an LEA to try and get more resource into their area over and above their neighbouring LEAs by just trying to set up a series of academies within their area.

Mr Clarke: But they have to have that agreed by the Secretary of State. That is the situation, but actually the real truth is that the main programme in all of this is the *Building Schools for the Future* programme for secondary schools, which is a programme which has universal aspiration right across the country for every single secondary school where we have a defined period at the end where, we hope, we will have transformed schools in the country. Academies sit within that, and they are not, as it were, apart from it. So in the case of Barnsley, for the sake of argument, Barnsley will, at some point, be a *Building Schools for the Future* authority which is transforming all its secondary schools to world-class standards. That is the investment which the Chancellor announced in the Budget which is very positive. So it would not be rational for Barnsley to think, “Well if we bid for all academies then somehow we can accelerate that process.” Nor would it be rational for any Secretary of State—me or anybody else—to agree that for Barnsley in that way because we think the *Building Schools for the Future* programme is the device to carry that through.

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Q217 Chairman: Secretary of State, just on that very point of academies, Jeff Ennis, the previous time you were here, used to complain that with specialist schools the £50,000 to be raised from private resources was very difficult in a place like his constituency which has some of the poorest wards in the country. As I understand it, the earlier academies all needed quite a big injection of private sector investment, which was not £50,000 but more like £3 million.

Mr Clarke: Two million.

Q218 Chairman: Will that be necessary for all these other academies?

Mr Clarke: That is what we are talking about, yes, and I think it is a very positive thing, actually, both in terms of the actual money, which is important but, also, in terms of the relationship with the school and so on. That money comes not from the local community, normally speaking, but from a sponsor, and the sponsors are precisely ready to invest money in the lowest educationally performing parts of the country because they believe that is the right thing to do, and I pay tribute to the fact that they do that. So it is not similar to the specialist school programme in the sense that it is the specialist school saying, "How can we raise £50,000" (as you know, I set up, together with the Specialist Schools Trust, a fund where that could be dealt with); it is more sponsors saying, "We are ready to put money in with you to really try and improve educational performance in a particular area of low educational achievement."

Q219 Chairman: There are two concerns, Secretary of State, about that. One is that sponsors do get a great deal; they put money in and get a very expensive piece of educational equipment, if you like—an academy is an expensive piece of infrastructure. Historically, people quite like it: if you are Ford and it is Dagenham you have got a link; if it is ICI in Huddersfield, historically there was a link; and you can see the Halifax Bank in Halifax. However, there are a lot of places that do not have that proximity to large businesses. Will that not be much more of a struggle?

Mr Clarke: It will be, but many people are prepared to put money in because they believe in the ideal that I have described, of trying to transform educational performance in a particular area of historically low attainment. Also, if I am being candid, Chairman, the extent to which major employers—of the type you have described, which have particular links with particular localities (I can think of those in my own constituency)—have actually put serious resources into their local schools has been pretty limited. The specialist schools movement is helping that, to some extent, but I think there is a lot more that could be done here.

Q220 Chairman: There has been a concern expressed that the academies open the door to faith organisations, particularly Evangelical Christian groups, getting a very large expansion in our urban centres through the route of academies. That is a

concern that I have picked up, and I think other people have picked up. Is that something that concerns you?

Mr Clarke: Not really. It has arisen specifically around one particular sponsor of the city academies, and it is absolutely clear the National Curriculum is taught; it should be taught and that is how it operates. I think that is the right way to approach it. Now, if there was any sense of that National Curriculum being diverted for the reasons that you are implying, that would be a matter of concern. It would be a matter not just of concern but a matter that Ofsted would have to look at when it was looking at the schools and carrying it through. I would certainly be concerned about that, but I have to say I have no evidence in any sense whatsoever that that is happening. I know the concern is there and I understand why you are reflecting it.

Q221 Chairman: It would worry you, would it not, if the born again Evangelical group had a series of academies in, as you said, urban deprived areas where, as we know, very high numbers of people living there are not of the British faith?

Mr Clarke: It is not so much the Christian Evangelical thing which is the issue; if the teaching in the school—that is the issue upon which I would focus—were suggesting that science, as a way of looking at the world, was flawed and wrong and that we should be anti-scientific in the way we look at things, I would be concerned. If there was a view that somehow science was not the right way to try and understand the world in which we live, I think that would be very damaging indeed. I think that would be a matter I would expect Ofsted to pick up in its review, and I would take any concerns of that kind very seriously. So my concern, Chairman, would be about what is actually going on in the school and what the children are being taught in these areas; it would not be about the identity of the sponsor of the city academy, if I can put it like that. The test which would be real for me, and would give rise, certainly as Secretary of State today, to concerns if I thought it were the case, would be if teaching was taking place in the curriculum which was undermining the scientific base of where we stand today. It would be a matter of concern.

Q222 Chairman: In the City of Birmingham, which the Committee knows very well, in which ethnic minority origin pupils are over 40%, you would not worry that a number of academies would come from that particular—

Mr Clarke: I simply do not think it is a real description, Chairman. Obviously one could hypothetically talk about any circumstance. As it happens, I was in Birmingham on Monday of this week at a specialist school which will become a science specialist school on Thursday and has got its award, and the teachers there were talking so positively—by the way the children were from all ethnic minority groups—and looking at science in a very, very excited and positive way. So, almost, my experience is counter-intuitive to what you are describing. However, if there were some malign

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force which was trying to sponsor a vast range of city academies and was dropping them down in urban centres to promote Christianity at the expense of other religions and to undermine the scientific base of our understanding of the world, yes, I would be worried, but I do not believe that is the case at all.

Q223 Chairman: I think you are parodying my remarks; I was not talking about a malign influence.
Mr Clarke: I beg your pardon.

Q224 Chairman: I was talking about what people are talking about, that particular groups are interested in sponsoring academies.

Mr Clarke: I think we are talking slightly at cross-purposes, Chairman, because I am aware of one sponsor who gives rise to these concerns—not in Birmingham as far as I know. My answer to that question is that the test is the teaching and learning that is taking place—what is actually going on in the school—rather than the nature and beliefs of a given sponsor. That would be my answer. I am not aware of a concern even of a widespread number of either individuals or groups or whatever seeking to sponsor city academies with that motivation.

Chairman: I understand from Jeff Ennis that there is a link between the evangelical sponsors for his two.

Q225 Mr Pollard: You said earlier on, Secretary of State, that there were unprecedented increases in budgets, but we have various estimates from 3,500 to 8,800 teachers being made redundant last year. There seems an inconsistency there. I just wondered why there was that inconsistency and why you believe that there have been “unprecedented increases” (to use your own words) and yet schools, according to each of us in our separate constituencies, are saying there were these difficulties.

Mr Clarke: I put it down to campaigning. What actually happened was that a large number of organisations—teacher trade unions, media organisations and others—did quasi surveys (I would call them) which made suggestions of what might happen in certain circumstances. Some of them were the front-page lead in the national papers, some of them were on various TV programmes and so on, and an environment was created which suggested there were large numbers of teacher redundancies coming round the corner. I responded to all of those by saying, “Let us wait and see what the teacher numbers are”, and when they were published earlier this year I then had a press conference at which I said to all those very same organisations, “Perhaps you would be nice enough to report what has actually happened in teacher numbers rather than what you reported as might happen last year”, which was that all the scaremongering was utterly false. Unfortunately, for reasons I do not understand, that was not the front-page lead in all the papers and all the broadcasting out after that press conference, and there was no sense of saying, “We were wrong” on those questions that came through, because they were wrong—those concerns were wrong. They did not

happen. If you look at the actual teacher numbers that came through, I can give you the exact position. From 1997, if you look at all regular teachers to 2004, year-by-year, it goes: 399,000, 397,000, 401,000, 404,000, 410,000, 419,000, 423,000 in 2003 and 428,000 in 2004. That is to say, an increase. Everybody said there was going to be significant decreases. These are the actual figures from the survey and the annual school census that came through. Support staff (again from 1997 onwards): 137,000, 144,000, 152,000, 165,000, 189,000, 217,000, 225,000 and 242,000. Again, an increase in the last year in precisely the way I have described. The point is these were the increases which came through when we actually did the census, and they were precisely the figures which all those surveys which you have referred to, Mr Pollard, actually said would be going down. They said we would have less teachers because of the alleged funding crisis that took place. It did not happen. Now, as I say, you asked me the question and the reason I gave was campaigning, because actually all the organisations concerned were campaigning for more resources. I do not mind that, that is a perfectly legitimate thing to do, but to do so they have created an, essentially, spurious survey and got news headlines for that, which actually was not borne out. I am still hoping today that, maybe, we will see headlines in the papers tomorrow on education which reports the Prime Minister’s speech and deals with the fact that we have had increases in teacher numbers and support staff numbers in every school in every part of the country, because that is the actual story of what has happened.

Q226 Mr Pollard: There are 700 fewer teachers in primary schools, which you explain is as a result of falling rolls. Given the Government’s early years agenda, would it not make sense to retain these primary teachers within the system?

Mr Clarke: I agree and that is what my answer was to the Chairman earlier. I think the development (a) of the early years agenda, as you say, Mr Pollard, and (b) of the extended school approach gives rise to the fact that we can see more resources going in in these areas, and to see ways in which we can not just retain individuals—that is a secondary question—but retain the resource to make it go, and I think that is precisely the way we should be attacking this problem.

Q227 Mr Pollard: David Normington recently said to us there is a need for “more qualified people for under-fives”. Is that more teachers or other qualified staff?

Mr Clarke: It is a whole range of qualified staff, including teachers. This is one of our very, very biggest challenges, Mr Pollard, and I am glad you have asked questions about it. The situation is that you have a large number of professionals working with under-fives: teachers, nursery nurses, therapists of various kinds (speech therapists, for example) and community nurses—a wide range of different people working with under-fives with different qualifications, different expertises and different

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roles. A key element in the Sector Skills Council for people working with children which we have established is to establish what kind of common core of training and skills we can build up between the different people, how we can get the partnership working happening—and the best example of that is the SureStart initiative where that partnership working is happening—so that everybody can work well together. Part of that is teachers but it is only part of the spectrum of different professionals working with children at that age range, where I acknowledge—and we have acknowledged publicly—there is a major investment in resource which is needed to train and develop those people in a positive way. That is a commitment we have got going through the CSR process, to really put resources in hand.

Q228 Mr Pollard: It has been stated regularly that student numbers are falling. Certainly in the Greater South East that is not the case at all; in my own constituency student numbers are going up and all our schools are full. There is a great imbalance in the system; there are newly qualified teachers in the North East who cannot get into teaching, never mind jobs, yet we are short in the South East. How are you going to square that?

Mr Clarke: Simply by trying to ensure that we understand the situation better and we signpost the recruitment opportunities better. You do have the issue you have described of pupil numbers moving in different ways in different parts of the country, though there are common places across the whole age range which is there. To encourage people to move and to provide incentives we announced a series of measures, for example, on housing for essential workers in the South East, on which we are attempting to deal with some of those concerns that were made.

Mr Pollard: In my own constituency, five head teachers are leaving this year. Some of that is put down to pressure and burnouts and other things like that. It has been a concern of mine that head teachers are absolutely key in any school and if head teachers are suffering this burnout—or however it is described—how can we tackle that? Should we have a sabbatical for them, perhaps, every six or seven years, where they can go and knit or do gardening or whatever they want to do?

Chairman: Is this for head teachers only, Mr Pollard?

Q229 Mr Pollard: And Chairmen of Select Committees, obviously!

Mr Clarke: Most ministers' sabbaticals are involuntary rather than voluntary, but some are voluntary, of course, as we know. The situation is I am actually quite in favour of developing sabbaticals and I have started thinking about ways in which we can do that, because I think there is a case—not only for head teachers actually—for having some kind of refreshment. Some of the trade unions are arguing for that position, and I think it would be beneficial if we could achieve that for a variety of different reasons. So I do not dismiss that particular idea at

all. More seriously, however, for head teachers, the head teacher is the key person. Each of those 26,000 head teachers are the key people to delivering everything that we have to do, and we focused very hard on that with the National College School Leadership, and the Leadership incentive grant programme has been particularly important in addressing this in various ways. You have to take it on a case-by-case basis. In some cases, bluntly, it is good that the head teacher is leaving and creating space for new blood in that area; in other cases it is outstanding people who have been burned out by the pressures of the moment and a rest will help sort the situation—or support from another colleague, mentoring, or whatever. So it is a horses-for-courses answer, in my opinion. So I do not think a generalised solution—eg a sabbatical—solves it, but I think everybody in the whole system needs to focus on supporting and finding the right head teacher to lead a school. If I can be candid, Mr Pollard, I think that means sometimes finding a way to face up to the fact that a head teacher is not cutting it in a particular circumstances and, in not cutting it, is letting down the children who are there. In my opinion we have to create a system which does not tolerate that, because it is not acceptable, in a role of that absolutely key nature, that they can stay in that role when they are not delivering for the pupils in that area.

Q230 Mr Pollard: Much is made these days of choice, Secretary of State. One of the schools in my constituency, St Albans' Girls School, is three times over-subscribed, year-on-year, so two out of those three over-subscribed will not be able to get their choice. Is it the right description to say "choice" or should we use some other word?

Mr Clarke: "Choice" is a funny word. It is used very widely in politics, at the moment. Part of it is about choice between schools, as you say, and it remains the case that a very high proportion of people get their first choice of school, at whatever level it is. I also believe it is a question of choice within the schools, so that an individual within a school has got a better ability to identify the curriculum that is right for them and carry that through (and I think we have seen some very positive developments recently in that area). Collaborations between schools—which, for example, the specialist schools system has encouraged and the excellence in cities programme has encouraged—is already allowing a wider choice, not between schools but within the school framework, to help particular individuals get what they want. I do, in that sense, think choice is the right word, but I hope the best answer on all choice questions is to get a high quality school in your locality which you really can have confidence in. That is what we have to achieve. There are still communities where that is not the case and that is what we have to achieve. But I think the idea that there is choice is important to achieving that in each locality.

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Q231 Paul Holmes: Just back-tracking, for clarification, to some of the previous points made, David Chaytor was asking you about the new proposals to let popular schools expand. How would that work in terms of the capital funding? The two most popular secondary schools in my constituency are absolutely bursting at the seams. One of the schools' regular complaint every year is that the independent appeals panel forces more and more people in which they just cannot take. The only way they could expand, if they wanted to, would be to build whole new teaching blocks. How do they get the capital to do that, and do they get it at the expense of another school with old, clapped-out, 1960s classrooms who were hoping, under the *Building Schools for the Future* programme to get them replaced? Does one of the less fortunate schools lose out in order to build a brand new teaching block?

Mr Clarke: The short answer to the question is no; the capital will be allocated in precisely the same way as it currently is, so the decision will have to be made—in your case—by the local authority on where its resource will go. So, is it going to fund the expansion at the expanding school, or is it going to go, by your hypothesis, to the clapped-out other school which is there? That resource will be for the local authority to decide in precisely the same way. What we are doing, however, is to try and accelerate the programme so that people are able to expand if they wish to do so, in principle, but the issue you raise of the capital does not change fundamentally, because it would be ridiculous to be in a state of affairs where the local authority was required to prioritise capital for certain types of situations as opposed to certain other situations. They will have to look at the situation in the round and make their judgment in the most appropriate way. What we are saying is that a candidate for that capital could be an expanding school in the situation you describe in your constituency—bursting at the seams. You can come forward and say, “We would like the capital”, but we are not saying you have the right to have the capital, if you see what I mean—the decision still has to be made as to whether the money should be spent in that way rather than the competing demands which you have just described.

Q232 Paul Holmes: So the newly announced policy of allowing schools to expand might meet a brick wall because the LEA might say “No, we are going to replace the old 1960s classrooms rather than let you expand”?

Mr Clarke: That could be the case. It is not newly announced, we are making announcements later this week and when we have made the announcements you will be able to make your commentary. As you are asking me about what has been said in the situation, as I was saying earlier to Mr Chaytor, we are not saying that the right to expand carries with it an automatic entitlement to a chunk of capital to be able to expand in that way. The capital allocation processes will remain broadly as they are. That is one of the reasons I was saying to Mr Chaytor, that I think some of the fears about the increased flexibility

in the system, which I think is desirable, are overstated because, actually, there will still be that capital constraint. Of course, it is a substantially expanding capital situation but the capital constraint will still be there; it has to be allocated according to priorities which are set by the local authority.

Q233 Paul Holmes: The other question was on the question of the city academies. You were saying that it does help to pull in extra money to deprived urban areas, but are you not overstating the case for that? With the city technology colleges, under the previous government, they said, “We will get all this money in from the private sector”, but it never materialised and the taxpayer had to bail out the few that were set up. With the academies, you are asking the private sponsor to provide two million but the taxpayer puts £22 million in and the taxpayer picks up all the on-going costs of maintenance, staff and everything, but the private sponsor, who has put in a very small chunk of the overall sum, then gets control over admissions, the teaching of creationism in science lessons, and so forth.

Mr Clarke: Let us be absolutely clear: you are right about the overall balance of funding, and you are also right—a point not often indicated and is in sharp contrast to the Conservatives—that the level of funding per student at the city academy is the same as it is for any other school in that particular locality, so we are not putting in extra revenue funding in that way—so it is not saying you get more money if you become a city academy, or whatever. So in that sense you are right about the overall financial resource issue. It is true that we believe that bringing in sponsors of this kind, and having bodies that work in that way is of itself a bazooka boost to try and carry the situation through in a positive way. It does not give the sponsor the right to control admissions because there is a code of admissions to which all city academies have to adhere and carry through. There are issues, though, along the lines Mr Chaytor was asking earlier on, that they can control the admissions policy but within the code which is established which has sets of criteria, for example, about special educational needs and so on, and they cannot violate those core principles. As far as teaching in schools is concerned and what is taught in a science lesson, as I said to the Chairman, they all have to teach in accordance with the National Curriculum and I think it would be a very serious matter indeed if Ofsted, in its recommendations, were to say science was being taught in the way you describe and not being properly taught. I certainly would take that very seriously and it would not be the right way to proceed, in my view. So the test I have for how an academy works, from that point of view, will be based on what is actually happening in the school.

Q234 Paul Holmes: Just on the issue of choice that you were talking about earlier, if the Vardy Foundation, who run Emmanuel College, have got the consultancy over teaching creationism, if they take over the school in Conisbrough and do the same

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thing there—I have heard parents on the radio from there saying “I don’t want my child going to a fundamentalist school which teaches creationism in science”—what choice does that parent have in a very small town like Conisbrough where there is not exactly a dozen secondary schools they can pick from?

Mr Clarke: I do not know about Conisbrough, but you are quite right, in any rural community—or even relatively rural community—choice is far more limited than it is in an urban community for simple reasons of geography. I think the question that really has to be asked is: are parents who are giving the comments you describe basing their knowledge on the facts of the situation or are they basing it on a propagandistic allegation about what is taking place which is actually not true? I am sorry to be repetitive but I come back to the point I made to the Chairman, the question is what is actually going on in the school. The parent has to make a judgment on that basis about the school. You are quite right to say that choice is much more restricted in areas where there is much less geographical ability to operate, but I cannot solve that in any way. I cannot say, “However large the settlement we are going to have 16 different schools from which you can choose”—we simply cannot—and that is a reality of the world in which we are.

Q235 Paul Holmes: From your position do you not have some responsibility? Even without the creationist issue, if you have parents in a smaller town or village and their other local school is a faith school and they say, “I don’t want my child to go to a faith school”, what choice is therefore being offered in that situation? You are encouraging the setting up of faith schools and academies and so forth.

Mr Clarke: A limited choice, but that is exactly the situation that exists today. The question is can we extend the choice. Actually, by federations of schools and collaborations, I think we can. We are already seeing, particularly post-16, collaborations of schools. For example, in Norfolk there is a group of schools 20 or 30 miles apart who are collaborating on their curriculum—including pre-16, by the way—in a variety of different ways, and very much post-16. So more choice will become available than has ever been the case before. You are absolutely right, if there is a given rural community that is there and there is a school in that community, choice is very limited for people living in that community. That is the case, and I cannot wave my magic wand and solve that. Actually, I think there is more progress happening in this area—not as a result of the Government particularly but as a result of technology in other areas—than there has ever been; we are beginning to open up choices more in those areas. However, your fundamental point, Mr Holmes, is true, that choice is extremely limited in rural areas—that is the fact. Can I add one point to what I said to Mr Holmes, which is to go back to what I said to Mr Pollard, that nevertheless choice within the particular school, choice within the curriculum, can be, and is being, extended, which is

also positive, and that is not affected by the conversation I have just had with Mr Holmes. That is another area in which choice is being developed.

Q236 Chairman: Secretary of State, that may be right but I am sure you have not had time to read our report on the School Transport Bill yet.

Mr Clarke: I have read it, actually, yes.

Q237 Chairman: You have read it? That is very good because you must have got it last night. We point out in that that the Government does seem to have two minds on this. On the one hand, you say to the Transport Select Committee, who looked at the Bill, that you wanted to encourage people to go to their local schools but, on the other, we have a whole raft of policies that encourage people to travel further to a diverse mix of specialist schools and much else. In one sense that does seem strange to us. It came out very clearly as we took evidence on the School Transport Bill that the whole thrust of the Government’s agenda on choice does mean people moving around more not less.

Mr Clarke: I do not entirely accept that. Let me just say, I was going to comment in detail on your report but perhaps I will do that in due course. I read from the report that the Committee’s view is we should just drop the Bill, and if that is in fact the case I would be—

Q238 Chairman: No, at no stage did we say that in the report.

Mr Clarke: You may not have used those words but that was the whole implication of the report.

Q239 Chairman: No, Secretary of State, I am sorry. If you want to know what the thrust of the Bill is, we think, as it is presently framed, it is a missed opportunity. It is a missed opportunity because it should be much more—not just about cutting down the school run and traffic congestion in the mornings—about children’s health, walking to school or cycling to school; it should be more about the environment, cutting down emissions and global warming, and we believe that 2011 is far too long to wait for real improvements and we believe that you should actually liberate all education authorities to come up with innovative, new transport for school plans outside the 26. We do not say you should scrap the Bill, we think you should improve it.

Mr Clarke: May we just have a quick exchange on that, Chairman, because I am very interested in what you have just said.

Q240 Chairman: Absolutely. If you have interpreted it in that way—do any of my colleagues think we asked them to drop the Bill?

Mr Clarke: I read the report very carefully last night because I was very interested in what you had to say, not actually from the point of view of preparation for this session this morning because I did not anticipate we would be giving great attention to this this morning, but because I am in a dilemma as to what to do about the School Transport Bill. To be frank, local government has said it wants it, the

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opposition parties in Parliament nationally have said they are going to vote against it because they do not think it is the right thing to do, and they are ready to go to the most scurrilous degrees to whip up concerns about it which are entirely unfounded, which I said across the Floor of the House directly. So I have a choice to make as to how to proceed. I think—and the Transport Select Committee and, to an extent, your Select Committee thinks—that we should be going down this course in a general way, but it is so qualified around that it leads me to think: “Is it really worth going down that path?” I am trying to come to a view. It is significant, Chairman, that I had read your report as being of the view “Just don’t do it”, and in fact the news-reporting this morning of your report implies that we should drop it as well. If that is not the case I am grateful to hear it, and we will see where to go, but it will be a very sharp debate because I agree with everything you have just said about walking (we tried to focus on that), about healthy schools, about sustainability, about the position of the children, but that requires, in my view, us to go down the course of giving local authorities the right to innovate in the way that we have tried to do in the draft Bill. When people say that we are not going fast enough, or whatever, I can accept that view; that was partly the view of the Transport Select Committee as well. OK, but then I am being told by all the other political parties than my own that they are going to try and kill this Bill by whatever means possible and to campaign in the most scurrilous way about it.

Q241 Chairman: Let us get the record straight: this Committee unanimously wrote and agreed that report. We believe that the pre-leg inquiry is an excellent way to improve legislation. All our contributions are to improve the Bill—not to scrap it. Yes, you can take more notice of health and the obesity issue, which really has arisen since the Bill was published—that very high profile and excellent report from the Health Select Committee. We also think it is a real opportunity to make children and parents aware of the environmental issues and what can be done to improve the environment in these pilots. We also said, “More power; let us have the 26 with the special ability to charge”. We understand the legislation is needed for that but we believe that you could liberate—you are not giving them any money—all the other education authorities to a different kind of innovative vote over a much shorter timescale than 2011. We have to say, if you read it again—you were probably tired last night—we believe it is a good Bill that can be improved.

Mr Clarke: Can I say, Chairman, I cannot tell you—and I mean this most genuinely—how delighted I am for the clarification, in which you have corrected my reading of the document in a very helpful way. I very much appreciate the exchange.

Q242 Paul Holmes: Just not to let you off the hook too much, there are two things we do say in the report. You said the Local Government Association are in support of the Bill, and they are, but what they said to us when they were sat where you are now is

that unless the Government provides some money to get this going it is a dead duck. That was one of the things you might need to re-think in redrafting the Bill. The other one was, going back to what the Chairman was just talking about, the confusion of purpose. If you are going to improve or redraft the Bill (and, also, in all the issues of choice that we have been talking about) you have really got to decide: are you aiming to do what you said to the Transport Committee and get more people going to local neighbourhood schools, or are you aiming to get lots of people travelling in every which direction to a faith school here, a specialist school there or an academy there?

Mr Clarke: That is very helpful because it allows me to address the question, Chairman, you first put to me before that exchange. I absolutely believe very profoundly and very strongly that our aim as a Government ought to be to ensure that every family has a first-class school in their locality to which they can send their children. That is a practice which I encourage, it is a practice I follow myself and I believe it is absolutely the right way to go. I believe there many localities where a choice can be enhanced by a range of different specialist schools. For example, in my constituency there are places where people can live within walking distance of three or four different secondary schools and in which they can have some element of choice as to where they go. I quite acknowledge, as Mr Holmes was saying, that there are other parts of the country where that patently is not possible, essentially for geographical reasons, in which case I say that what we have to try and do is to enhance choice within those schools to ensure that they can better meet the needs of the people in those particular localities. So it is not part of our policy to increase the average amount of travelling between a home and a school by new education policies. That is not what we are about, and I do not believe that is a consequence of the choice agenda; I think that need not and should not be the way that we proceed. In fact, I think the reason for having an innovative approach by local authorities is to enable those issues to be addressed in a very particular way. I will make one very serious point, in addition, Chairman, which is I do not believe that the genie of parental choice can be put back in the bottle. There are people in the school transport debate, and I have discussed it with them, who argue that somehow we should require people to go to a particular school based on criteria around transport rather than any other question. Firstly, I believe that is undesirable, but even if I did not believe it is undesirable I think it is absolutely impossible to get to a state of affairs where that goes and carries it through. So my answer on the transport issue is not to say “Let us reverse decades of recent educational history and require people to go to a particular school”; I do not think that is a reasonable solution, nor do I think it is a desirable solution. My answer is to try to achieve a situation where, firstly, people have got a genuine choice of good quality schools as near to them as can be achieved and, secondly, we have ranges of transport

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arrangements which maximise what you are describing: walking, health and so on, rather than people driving around.

Q243 Chairman: Valerie Davey, you have been very patient but I have one quick response on that, which is that we understand the genie of parental choice cannot be put back in the bottle, but we would extend that and say that we still continue to say to parents and to say to the broader public that you can push up the whole notion of parental choice to a degree which gives people an unrealistic expectation of how much choice is out there for a very high percentage of people whose one choice is to go to the local school. That is the truth of it. Sometimes, raising the expectations can be very damaging because people become very disillusioned. If you peddle parental choice and actually it does not exist for many people, it is dangerous.

Mr Clarke: I agree, but only up to a point. Firstly, I do not think anybody is “peddling” parental choice in that way. The reason why I have tried to emphasise in this discussion here the question of choice within the school, as well as choice between schools, is I think that it is choice within the school which will be a major motivator in this area. I think that is what we should try and do. The idea that people will shop around a range of different schools and travel journeys of miles and miles and miles is not realistic. I think most parents want to be able to send their child to their local school. I think that is what their desire is and I think it should be my purpose as Secretary of State for Education and Skills to encourage that and to make that go. The only way to encourage it, in my view, is by really going for quality in that local school so that people feel they have got a real choice that is there for them. That is the area where, bluntly, we have failed in too many parts of our education system, at the moment, where parents feel that they have not got a good option for them locally.

Q244 Chairman: There is a myth and a reality there, is there not, Secretary of State? I am not a London MP but looking at London the evidence suggests to me that London schools are improving faster than the national average, but you have, in *The Evening Standard*, a kind of hysteria amongst many parents in London that bears no relation to the truth of what is going on out there.

Mr Clarke: That is true and false, Chairman. I agree about the hysteria. When I used to live in London there were dinner party conversations (as you can see, I used to go to dinner parties rather than reading Select Committee reports)—and “hysteria” is too strong a word—and there was certainly a huge anxiety for many people in some parts of London as to whether they really could get the school they wanted for themselves in the way they operate. I answer that (and I have discussed this with *The Evening Standard*, since you mentioned *The Standard*), by saying that we are really focusing, through the London Challenge, through the five boroughs we have identified and through the schools

we have identified, on driving up standards of education in those schools because the choice has not been there.

Q245 Chairman: Would you agree with Professor Tim Brighouse that achievement in London schools is above the national average?

Mr Clarke: Yes, I would, and I am proud of the fact that we are beginning, for the first time, to see an improvement which is moving ahead of the national average, so the choices will become better. Now, it will take time to get there and all I can say is that when I moved with my family to Norwich the level of discussion and—in your words—hysteria about this was infinitely lower than was the situation in London; people were much more relaxed about the choices they had to make, and I suspect that is true of a large number of out-of-London places.

Chairman: Val, you have been very patient.

Q246 Valerie Davey: I would like to refocus back on the department and use the analogies which we had earlier to ask you whether you describe the financial management section and the risk assessment section in your department as ramshackle or offering a plaster in certain policy areas?

Mr Clarke: I do not, actually. I think what happened on finances was that we did not have, for too long a period, as strong a relationship with local education authorities as we should have done. One of our responses to the school funding issue when it came around before was to establish a much stronger set of relationships between senior officials in my department and the local education authorities with which they were working to discuss what the financial situation was and how we could help with what was happening, and so on, to get a better level of understanding in the way we operated as a department and what local authorities were doing, hopefully, to get a better understanding from local authorities of what they could and could not do. I think there had been too much of a tendency, particularly across government actually, for edicts to go out in whatever form and people not quite to understand where they stood. I am working very hard, and I think we have done very well, in fact, since a year or so ago, on improving the quality of that relationship. I think if you were to talk to the average education officer of a local authority they would say that they have a much stronger relationship with us on the financial front than they had had previously. I may be being complacent in saying that, but I do not think so. I think we have developed a much stronger set of relationships which has enabled us to address, for example, the point Mr Ennis raised about schools of deficits in a much more constructive way than was the case. So I think we have made significant progress in those areas.

Q247 Valerie Davey: I am glad to hear you say that and I hope it is true, but this Committee has also looked at the ILA situation and we have also looked, more recently, at the e-university situation. Certainly Mr Normington told the Public Accounts

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Committee that there was going to be a risk assessment review throughout the department, top to bottom. Could you tell us what reviews have taken place? Let us focus, if you like, on the local authority school situation. What has happened since then within the department to change things?

Mr Clarke: A tremendous amount. What has happened is that we have a group of senior officials in the department who, both on advice to myself and the Minister of State, Mr Miliband, are working very closely in establishing what the financial situation of schools is likely to be and what the financial situation of local education authorities has been. The activities that they undertake in this are, firstly, dialogue with the individual LEAs, secondly, dialogue with groups of school and, thirdly, a training programme which we put in place with a major consultancy to provide proper training to schools and LEAs on how they manage their financial budgets, and a much more serious risk assessment programme that is there. You mentioned one or two other areas of the department's work but I am more proud of what has been achieved in relation to schools finance and LEA finance than I am of any other single area that we have achieved. We have made a significant step forward in the quality of our management arrangements. The test will be—as I was being asked earlier on—whether that carries through successfully into 2005–06, as I hope it will. I receive, personally, a report every week on the latest state of affairs of what is coming through, for the obvious reason, Ms Davey, which is that politically I felt vulnerable on the whole question of school funding and I wanted to make sure we had it working completely in a better way. I think we have made progress for that reason.

Q248 Valerie Davey: What about the remodelling of other policies? For example, are you confident that now you have got the consent for the HE Bill you will be able to do the phasing from the present Student Loans Company to the future plans of deferred payment?

Mr Clarke: Yes. We work very hard in the higher education area. The Student Loans company itself has gone through a major process of trying to transform what it itself is doing to be able to deal with those questions properly. You ask am I confident. Yes, I am confident; I feel very confident that we have worked through and risk assessed carefully the implications of the changes that we are talking about, which are, as you say, significant. I believe that we will be able to demonstrate, once the new system is up and running, the truth of what I am saying.

Q249 Valerie Davey: I understand from questions that we asked David Normington while he was here that during the process of the Bill, in fact, you had to bring in additional staffing, and I can understand that—it was very detailed financial work. Can you tell us who is responsible now for the loans company?

Mr Clarke: The loans company is responsible for it.

Q250 Valerie Davey: Which company runs the loan company, as it were?

Mr Clarke: It is The Student Loans Company, which Keith Bedell-Pearce is the chairman of, based in Glasgow. It is a company which is there as a non-departmental public body and, actually, that is a very impressive new approach. I have been up there and listened, and it is very interesting to see how they are dealing with individual inquiries in a very modern and up-to-date world which would be a good comparison with any modern financial company that operates.

Q251 Valerie Davey: Are they going to take on the work of the EMAs?

Mr Clarke: That is not currently intended. It is the local authorities which do the EMAs. We think that it would be wrong to give the Student Loans Company additional, extra responsibilities at this point when we have got the change you describe coming round the corner. I could imagine a time in the future where that could happen. At the moment there is an issue because all local authorities have a higher education grant system as well and it is a question of whether it is right to have that side-by-side with the Student Loans Company operation. The question of whether we should be trying to do better in co-operation there is something that we are considering, but the first priority for the Student Loans Company is to get itself bedded-in following the HE reforms in a way that means when I next come in front of this Committee you will not be able to say to me “You were wrong in your confidence”.

Q252 Valerie Davey: Can I just underline the aspirations that we have raised in terms of EMAs now that it is being rolled out this September. Again, you intimated that this was partly LEA's responsibility, are you confident that is going to be delivering for those young people who are really in my area confident, and in huge expectation of what it is going to do for them, that they will not be disappointed?

Mr Clarke: I am very, very confident indeed. It is, again, a major reform of which I am very proud. I think it will make a major difference. Ms Davey we only did it after quite careful consideration because we piloted it and there was a doubt about whether the extra financial incentive would make a difference and the “deadweight cost” would simply come through with the getting expenditure for little result. That was a question we asked ourselves through the pilot regime. There was secondly a doubt—a doubt to which you have referred—as to whether it would be efficiently run and the various criteria would be properly operating. We satisfied ourselves looking at the pilot on both of those questions and it was on that basis that we decided then to roll the programme out nationally, and that is where we stand.

Valerie Davey: Could you just confirm or deny what we had understood which was that Capita was running EMAs?

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Q253 Chairman: Or is that just the computer system?

Mr Clarke: I think it is just the computers but I will need to write to you on it. I do not think that is right. If you are asking me to confirm or deny—

Q254 Valerie Davey: No, I am asking a genuine question, I do not know the answer.

Mr Clarke: My immediate inclination would have been simply to deny but because I am aware that I am in front of you I need to be careful what I say. Could I offer you a qualified denial, subject to what I then write to you.²

Q255 Chairman: The Permanent Secretary said they were but whether it is the computer system or the whole thing?

Mr Clarke: What you have is the local thing which operates where the LEAs are in fact running it and carrying it forward. You have a national computer system which went out to tender and I think it is right that Capita is doing that. Is that what is meant by running it? I think what I had better do, Chairman, not to confuse myself, further is to write you a letter which I will do in the next 24 hours just to go through and set out exactly what the arrangements are.³

Valerie Davey: Thank you very much indeed. Given how busy you are I accept that as a very generous offer.

Q256 Chairman: Secretary of State, that the student loan company, we would like to know some time, and in some detail, whether this is all outsourced and who it is outsourced to?

Mr Clarke: The student loan company?

Q257 Chairman: The student loan company, if it is doing it itself in house, that is one question, if it is being outsourced we would quite like to know because we are getting some feedback that there are problems.

Mr Clarke: Yes. There have been student loan companies who, with the software they have established in some local authorities, have had problems and talked to us about particular problems there have been. We believe those problems have been solved and in fact Wandsworth, for example, had a concern the other day, which when we followed up it turned out was not in fact right. I think the best thing I can do, Chairman, is to write you two separate letters, one on the points raised by Ms Davey about the operation of the EMA scheme and which companies and organisations are involved in that and one on the question that you have raised with me about the student loan company's outsourcing and its arrangements for what it is doing there. If I write both of those separately I hope that will answer the question.

Q258 Chairman: You realise our anxiety, Secretary of State. We are not going to have time today to dwell too much on the e-university but to have

another flagship project—even though it is rather at arm's length—that one of your predecessors launched go belly-up after the ILA is disturbing.

Mr Clarke: To be quite candid, Chairman, when I was appointed to this office I was just at the end of the ILA issue.

Q259 Chairman: I know.

Mr Clarke: I am exceptionally concerned—and the Permanent Secretary, Mr Normington, as you implied, is—to make sure both, firstly, that we run things extremely efficiently and effectively and, secondly, that we are perceived to run things efficiently and effectively. Both of those are important parts of our responsibility. As we have looked at the EMA system, as we have looked at the student finance system, as we have looked at the school funding system last year, we were acutely aware that we needed to do that right in order to give the confidence which the Committee looks for. I think we are doing that in ways I was trying to refer to in talking to Ms Davey. I will write to you with the additional information.

Chairman: David wants to ask you how you are going to do all this in a much slimmed down department.

Q260 Mr Chaytor: Secretary of State, your Department spends a quarter of a billion pounds on administration and employs 4,500 people. How many are you going to get rid of in the next four years?

Mr Clarke: What we have announced is a 31% reduction in staff over the period to 2008. We are phasing that and there are a series of different stages of that approach which we are going through.

Q261 Mr Chaytor: That is about a thousand?

Mr Clarke: It is of that order.

Q262 Mr Chaytor: In the report it says you are getting rid of 1,460, is that exactly 31%?

Mr Clarke: I do not know.

Q263 Mr Chaytor: You are the mathematician, Secretary of State.

Mr Clarke: One of the things I learnt in mathematics was not to try any clever immediate tricks on numbers. I have enough problems doing this job when television interviewers shove the microphone in your mouth and ask for a particular mathematical sum to be solved, and I am not going to do it. It is of the order of 31%.

Q264 Mr Chaytor: In your report the text did say it will be 800 by the year 2006 but in the total it says only 400 by the year 2006. It would be very helpful if you could write to us to clarify exactly what the scale of the numbers is.

Mr Clarke: I am very happy to do that.⁴ We have had a very substantial process in the Department, including consultation with trade unions and colleagues, to establish the best way of going

² Ev 49

³ Ev 49

⁴ Ev 50

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through this. We have taken a number of decisions so far about where we are going. If it would be helpful to the Committee I would be happy to set out very fully what the exact process is since the report was published.

Q265 Mr Chaytor: Of the savings that accrue as a result of the reduction in staff by 2006 and by 2008, will all of that saving go into front line services in education?

Mr Clarke: Yes, but with one important qualification which is the total amount of resource that we spent on our administration is a very small percentage indeed of the total amount of resource that is spent on education because the overwhelming bulk of what we spend goes to schools, colleges, universities and so on very directly.

Q266 Mr Chaytor: The staffing savings will be ring fenced to education?

Mr Clarke: Absolutely.

Q267 Mr Chaytor: Given that you are taking on huge new responsibilities for children's services then presumably the bulk of that ring fencing will be allocated to finance the expansion of children's services?

Mr Clarke: Yes, but I emphasise the point again that the actual saving that we make from the efficiencies that we achieve by 2008 is a pretty small number compared with the amount of money we are spending on children's services or schools or whatever it may happen to be.

Q268 Mr Chaytor: As part of the Chancellor's guidance to departments to reduce their staffing, he wants to see devolution from London to the regions. Do you have any plans to further devolved staffing to the regions?

Mr Clarke: Yes, following the Lyons Committee we have been discussing precisely what we should do and where we should do it. We have been discussing, also, how we can work more closely with the Government Offices in terms of education services and how we can do that. We are developing approaches on that as we speak. We have not taken final decisions on it and it is part of the overall process that we are describing.

Q269 Mr Chaytor: Broadly, what kind of functions will be devolved to regions?

Mr Clarke: At the moment we are amongst the most devolved departments of Government. I am speaking off the cuff so please do not hold me to this figure but I think I am right in saying that 70% of our staff work outside London already in this position. The question what then further is devolved is a matter that we are discussing particularly but the central organising principle is that policy based staff should mainly be based in London and administrative staff based outside London.

Q270 Mr Chaytor: If it was the case that following the referenda on regional assemblies in the three Northern regions regional assemblies were

established and those assemblies wanted to have a strong involvement in the skills sector or even the post-14 sector, how would that change the work of the Department down here? Would you be supportive of the greater responsibilities for elected regional assemblies in the 14-plus sector?

Mr Clarke: They are two different questions, I will take the second first. We have agreed a concordat with the Department of Trade and Industry, the Regional Development Agencies, including those regions, and the Learning and Skills Council as to how we should divide the responsibility for the skills between those agencies. The Secretary of State for Trade and Industry and myself had a meeting with all the chairs of the RDAs about six weeks ago, something of that kind, to clarify exactly where we were going and how we were dealing with it. I think we have got a satisfactory solution which everybody is satisfied with and feels we have right. We will implement that, as it were, in all circumstances. That should be implemented in any circumstance whether you have an elected regional assembly or not in a given area. An elected regional assembly would give a bit more of a pull towards that, if I can put it like that, but we think that the regional aspect of the skills agenda should in any case be delivered in the regions through the regional skills partnerships whether or not there is a regional assembly. What we are ready to do, and I have discussed with colleagues in Government who are making proposals in this area, is if there is an elected regional assembly giving the elected regional assembly certain rights in relation to the delivery structures in those regions which at the moment are held by the RDA's Government Office or LSC in terms of nomination, for example, and so on, to get a better relationship as to what takes place. We feel we have a good structure, as I say we have called it the concordat, between the main agencies to work together. What is the implication of all that for the DfES? Not a great deal because a very large amount of DfES work on skills is handled by the Learning and Skills Council itself in its own structure and DfES staff in this is a relatively small number.

Q271 Mr Chaytor: Finally, what are the implications for the role of the Secretary of State itself with all this slimming down and decentralisation and devolution? Do you see your role or your successor's role as changing significantly? Will you no longer be held responsible and accountable for any operational measures? Will you be able to come to this Committee and say it is purely broad strategy and policy?

Mr Clarke: It is a happier life for me because I believe that one of the consequences of reducing what we do is to reduce a lot of interactions that take place which do not necessarily need to take place which are often called bureaucracy. I think that getting the DfES into a strategic role in the way that we are doing will make the life of the Secretary of State easier in terms of being more strategic and carrying things through. Will it reduce operational responsibility for any aspect of what is happening? No, I think it will increase it because it will make it

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much more transparent what we are doing and we will get greater clarity. The biggest intellectual problem we have to achieve in going down the course that you have asked me about is how do we limit our ambitions to fill the space available? There is a tendency to say "Well, we have got a project, we will have an initiative, we will have a unit, off we go". We have to say that the reduction in numbers of people is not about making them work harder but about us being more candid about what we can do and what we cannot do and sharing our responsibilities with others more effectively. So, for example, with a particular non departmental public body, do we have the non departmental public body there and then also, side by side, have a group of officials who are watching what the non departmental public body is doing? Actually that is a crazy way to proceed. You have to get to a state of affairs where you give the body the responsibility and you get the clarity but what happens, that can lead to political issues as people say: "We did not realise the non departmental public body was going to do this, that or the other" whether it is a HEFCE, QCA, Learning and Skills Council or CAFCASS or whatever it may happen to be, and that is a big challenge for us.

Q272 Chairman: Secretary of State, that is one of the concerns and worries, is it not? I am not accusing you of kidding or misleading this Committee at all but the fact is there are certain elements in what we presume the Prime Minister will be saying today, and you may be saying tomorrow, which enlarges the Department's responsibilities, or might potentially, and certainly in terms of the Children's Act there will be a very big responsibility added to the Department. It is not a big department compared with other departments, what bits of activity that you do now are you not going to do in the future?

Mr Clarke: Second guessing of the kind I mentioned to Mr Chaytor, some aspects of our analytical work we do not need to do in quite the same degree but the main point here is we only operate in partnership with a range of other bodies, non departmental public bodies, local authorities and so on. One of the issues for us—which is why I reject entirely the idea that we were talking about earlier that I am trying to devalue the role of local government—we have to work in much better partnership with local authorities on children's trusts and so on and to do the various issues that go through and I think it would be a better situation where the responsibility is more clearly defined across the system within a framework which is a clearer one.

Q273 Chairman: Secretary of State, no-one is going to be fooled, are they, if at the same time as you have got a Department that you say you are cutting by 1,400 people—first of all we would be very concerned if that meant a poorer service, and just having a 31% cut does not really impress us if that reduces the efficiency of the Department because that is a Treasury view, is it not—on the other hand, if it is all back office, none of us is fooled by the fact

that HEFCE is out there, it is not part of the Department, the Learning and Skills Council is not a part of the Department, and Ofsted, growing exponentially will be bigger than your Department the way we are going, will it not?

Mr Clarke: No, I do not think so.

Q274 Chairman: It is 3,000 and growing, the last figures that we have.

Mr Clarke: We will see how it goes.

Q275 Chairman: You are 4,500 and shrinking. Ofsted will pass you.

Mr Clarke: On inspection itself, we have a review of inspection, as you know, which we have carried through and come to conclusions, a new inspection regime and so on which we think will be more efficient all ways round and better for schools and other people who are inspected by Ofsted, some of whom have complained about the overall process. It is true I have not studied the relative size of the organisations though it is true, certainly, that many of the organisations we are talking about are larger than the Department.

Q276 Chairman: Yes.

Mr Clarke: That is true not just of Ofsted but of other agencies too. Is that a good thing or a bad thing? I do not think it is a bad thing at all.

Q277 Chairman: Our role is scrutiny of the Executive and sometimes when your responsibilities have spun off to these quangoes or non departmental public bodies it makes it slightly more difficult. Take the e-university, the inspiration of David Blunkett, it is set up under the auspices of HEFCE so when HEFCE arrives here I have not got the ability to say to you "It is your responsibility". You can say: "Well that was HEFCE, they were in charge, that is an arm's length authority". That can go on and on. Our parliamentary responsibility of scrutiny becomes more difficult, does it not?

Mr Clarke: This is an absolutely fundamental issue which I think I need to join with you on. The issue of accountability and parliamentary accountability—which is central to the way we run the country—does that create a system where we have a direct line of command from a Secretary of State to every aspect of the delivery of education in Britain? Do we say what happens, for example, in a given school on school uniforms is the responsibility of the Secretary of State in every respect and, therefore, we create a mechanism that happens. Now this is not a million miles from reality because if you look at health, for example, the model of health has traditionally been on that kind of direct accountability model in precisely that kind of way. Education has never been in that way, it has been a partnership between local government and national government in the way that schools are run. In the case of universities, the idea that I am accountable for what an individual university does, despite the fact that most of the money is provided by the Government, is again not an issue that has been at the core of where we are for the reason that academic

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freedom and all the rest of it means you have a whole set of bodies at an arm's length distance. I do not accept the proposition that accountability means I run everything.

Q278 Chairman: No, that is right.

Mr Clarke: I think if we were to go down that path we would be on a very dangerous course.

Q279 Chairman: You are right, Secretary of State, I could not agree with you more but sometimes we have had discussions about how accountable these other organisations are to Parliament through this Committee.

Mr Clarke: Quite so.

Q280 Chairman: Now, you and I have joined that discussion. We know that precedent was set by the fact that Ofsted reported to Parliament through this Committee. I have sometimes won you over in terms of QCA and others of these, the LSC for example, should have the same status. It is very important for us to know can we deliver on scrutiny. You have said you do not want to be responsible for every little thing they do but now the reverse of that is Parliament should have the ability to scrutinise these organisations and we should be the conduit for that. You would agree with that, would you not?

Mr Clarke: Broadly speaking, yes. To give you an example, when I was a member of the Treasury Select Committee, which I was in 1997–98, I proposed to that Committee—and it is for you to decide what you do—that for all the non departmental bodies controlled by the Treasury we should have a process running through a Parliament where there would be scrutiny, directly and explicitly by the Select Committee, of people like the Royal Mint, or whoever it might be, the Bank of England, to go through and to have a systematic approach of scrutiny in precisely the way you describe. Myself, personally—it is entirely a personal view—I think that should be done by Parliamentary Select Committees right across the whole of Government, not just in this area but more generally, though of course that is a matter for Select Committees not a matter for me or Government or anybody else. I think the kind of scrutiny that you describe is entirely appropriate, I think it is entirely right it should happen and it should be welcomed by those organisations themselves. What we discovered when we did it with the Treasury Select Committee, even after I left the Committee, was various cogs got discovered which otherwise would not have been if there had not been that systematic approach going through organisation by organisation. The big missing element of this is local government because in the case of this service local government is an absolutely essential and vital partner and the way in which Parliament works in relation to local government in these areas is a much more complicated and difficult question to get right.

Q281 Chairman: Hear! Hear!

Mr Clarke: That is a big central issue about the way we operate.

Q282 Chairman: Secretary of State, we are getting to the end of our time but we have got two issues to cover. Nick wants to come in very quickly and then we want Paul to lead us on FE or we will be scrutinised by people outside.

Mr Clarke: You are not going to do prison education.

Chairman: We are not.

Q283 Mr Gibb: Can I just pick up on this very important point about politics today in Britain and the governance of Britain because it is fundamental to the whole disillusionment with politicians that has been building up over two or three decades. As politicians lose their confidence they are handing more and more important policy decision making to these unaccountable non departmental bodies full of experts who tend to make these decisions. As a consequence of that, of course, the politician loses control over some important policy decisions that directly affect the way these services are delivered and the public, they are the people we are representing, have almost no say in being able to make policy changes. For example, a discussion we had earlier about mixed ability teaching and phonics and school uniforms, none of those issues is down to us, down to you, they are down to experts, teachers, professional bodies, and yet the public have a very strong view on all those issues. They have no way of influencing the debate and it adds to the disillusionment with elected politicians in this country. Now how do you address these fundamental problems?

Mr Clarke: I think the way to address that is to be absolutely clear, clearer than we are now, about where responsibility lies for what happens. The idea that I should decide the school uniform in every school in the country is hilarious in my opinion, we could not conceive of doing it. The idea that I should determine how a school in your constituency teaches English, for example, I think is ludicrous but if there is a comparison about it, it is very difficult to deal with. I do not feel lacking in self-confidence as a politician. I will tell you an anecdote in another area which relates to this point. I had a dinner—I always have dinners before reading Select Committee reports—

Q284 Chairman: You will get a Hattersley reputation!

Mr Clarke: No, I do not live quite the high life which Lord Hattersley does though I had lunch with him recently, and we had a very entertaining exchange on questions similar to this but he was eating in a very disciplined way, I am glad to say!

Q285 Chairman: He is now a vegetarian!

Mr Clarke: That was exactly my point. I did not quite go exactly down his route. At this dinner I am talking about, another of my dinners, I was with a group of university vice-chancellors and I said: "Look, none of this is anything to do with me. All I do is I give a load of money to HEFCE which you all control and you decide what happens". Now all these vice-chancellors fell off their chairs, they said:

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“This is ridiculous. Of course you decide, do you not, what HEFCE’s strategy should be in each of these areas, whether secretly or not, with a brown envelope, in a form or whatever it might be, and it is totally dishonest of you to suggest that is not the case”. It provoked a real thought in me: “Should there be a national strategy for universities? If so, should it be held by HEFCE? Should it be done by Government Departments?” exactly the issue that you are raising. Now my complaint, and it is a complaint against myself as much as anybody else, is I do not think we have yet got clarity in these relationships enough and that is why my answer to Mr Chaytor is that going down a more strategic path in the Department I think will assist us in getting clarity for these things. I think it will be the most incredible arrogance for the political class as a whole to believe it could or should run everything, for example, in education in Britain, they cannot.

Q286 Mr Gibb: If one can identify through the political process people’s public concerns that they raise with MPs, there is a problem in education, for example, or policing that they pin down, and we generally pin down as a nation, the public as a nation, that is caused by mixed ability teaching or it is caused by whole language teaching or it is caused by the way we police our streets. If we see a particular cause they should be able to change that and what we are saying is those decisions should be made by experts and, of course, they tend to coagulate into a national body, ACPO or the teacher training bodies, they do take a decision about the best way in which teaching happens in our schools. A decision is taken by someone or a very small group of people but they are not elected or accountable or transparent or visible and that is a principal cause, I believe, of the disillusionment with the democratic process.

Mr Clarke: A quick response to that. I believe it is entirely possible for Select Committees in the areas you describe to have an inquiry into, say, phonics, for the sake of argument, I know you would all enjoy it but I see the Chairman is not entirely relaxed about that as a proposition.

Q287 Chairman: Short inquiry.

Mr Clarke: You would take the evidence, you have the right, you can summon anyone in the country to come, they have to come and go through the process and so it is entirely possible to do it. The problem is a political managerial one: how do you prioritise what you do and how you do it in a serious way to facilitate this delay?

Q288 Paul Holmes: The FE sector is a very important deliverer of education but often it feels it is a Cinderella sandwiched between schools on the one hand and higher education on the other. For example, you have got the *Building Schools for the Future* programme but there is not really an equivalent for the colleges and David Normington said to this Committee that the reason for the different capital spending on schools and colleges

was “... simply a question of Government priorities ...” so the Government holds colleges as a lower priority.

Mr Clarke: I used the phrase in one of my first speeches at an Association of Colleges Conference in November of the year before last that it was often seen as a Cinderella and I said we were pushing a resource in through our *Success for All* programme, which I hoped would end that. Many people in further education accepted that was the case, that we were ending it by the commitment we made then by the Schools White Paper that we published last July giving a clear focus in this area as well. We are making capital allocations but it is quite true that we are focusing on restructuring secondary schools. I simply do not accept today that further education is a Cinderella, in fact I argue that the resource that we have for post-16 education in particular is absolutely enormous through the Learning and Skills Council and is a major priority of Government in an area that is performing very fast. The FE people I meet these days believe there is a transformation agenda taking place of which they want to be part, which includes very strong funding regimes. Now there are problems for some colleges in that because we are asking them to perform at a much higher level.

Q289 Paul Holmes: Another example then, a student doing A levels in college is funded at up to 10% less than the same student doing A levels in a school sixth form and that is a fairly widely accepted figure. Now, again, David Normington told the Committee that the Government are seeking to narrow the differential between sixth formers in colleges and sixth formers in schools but it is happening very slowly, very slightly. Again, tie that with the capital programme and the priorities, is it not still a low priority?

Mr Clarke: Mr Normington is entirely correct in what he said. What you have not said though, it is true, is that it was a manifesto commitment at the last election to narrow that gap, and that is a commitment that we have and it is a commitment we continue to carry through but we do it in a very steady way. One of the problems—to be blunt about this—is we are tending to look at teachers in entirely different bands. You have got schools teachers there, primary teachers there, FE teachers there, university teachers there and how we can develop an approach to teachers and the profession of teaching more generally is an important consideration for us at the moment. One of the consequences of being able to do that would be to have more consistent financing regimes. We are narrowing the gap as we said we would but as Mr Normington said it is still relatively slow.

Q290 Paul Holmes: The Department is fairly hard on colleges in terms of inspection reports and saying: “Look at all the things that need improving”. What about, for example, the satisfaction survey that the colleges did which had a massive well over 90% of students saying they were highly satisfied, and that

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was a really, really high figure. The customers, the students, are highly satisfied but the Department is saying the colleges are not doing a good job.

Mr Clarke: It is not the Department, what it is is Ofsted. As we established the Ofsted regime to look at the quality of what was being done and the ALI from a different angle, looking at what is being done, the results are not as good as the colleges themselves would have wished. Now, of course, it is perfectly right to have satisfaction as an element in all of this but I think you cannot beat the Ofsted regime to try and understand what is really happening in colleges as elsewhere. We are not inventing the Ofsted assessments, they are making assessments, the ALI is making assessments, as they rightly should, and I think most of the colleges would say that those assessments indicate there is still a great deal of work to be done to get the standards up to those that we want.

Q291 Paul Holmes: You would regard the student satisfaction as being less equal than the Ofsted approach?

Mr Clarke: Ofsted has an important component of what it does as student satisfaction but it is not the only consideration, in the end it is the question of the quality of what is done. If the suggestion, Chairman, is somehow we should take Ofsted out of all this, that colleges are doing fine, that is all okay, I do not accept that.

Q292 Chairman: The problem is, Secretary of State, if we look at it from the taxpayers' point of view, 53.2% increase in funding 1998–99 to 2000 for FE, that is a lot of money. The inspection is showing up some pretty patchy performance.

Mr Clarke: That is my point.

Q293 Chairman: On the other hand, the traditional unhappiness about Ofsted was that they tell you what is wrong but there is no-one there who is really supportive to say: "This is how you put it right". Sometimes I get the feeling when I go to FE colleges that there is not enough direction from someone to say: "This is how you get your act together".

Mr Clarke: I think it is more difficult to make that argument now than it was a year ago. It is not Ofsted's job.

Q294 Chairman: You have not got the LEA to come in, who have you got to come in?

Mr Clarke: What I was going to say was a successful strategy I think is providing support of the type that you are describing. Ofsted does not have the role, as you say, rightly, to offer that support but I think the whole successful strategy is offering real support for individual colleges trying to face up to what they have to do in the current circumstances.

Q295 Chairman: When I talk to LSCs, Secretary of State, they would very much like to have an overall responsibility for helping across that sector in the region and sub-region. At the moment they cannot

do that, they cannot help on an individual college basis but they can have a remit across the FE sector. Would you take that up as a concern and write to the Committee?

Mr Clarke: I will be happy to but I would simply say the LSC has the job of looking at the provision right across the range, in the local area reviews they are seeking to do that. They are in close dialogue with the colleges about trying to deal with the situation but, yes, I will write to the Committee.⁵

Chairman: I think there is a problem there.

Q296 Mr Chaytor: Very quickly. Secretary of State, you talked about a convergence of funding between schools and FE and you talked about steady progress but in your annual report it shows that since the 2001 General Election the real terms funding for students in schools has gone up by 19 percentage points and real terms funding for a student in FE has gone up by four percentage points. There is not much convergence there, is there?

Mr Clarke: As I have said, the major change that we made, which I announced in November a year ago, was in the 2002 CSR process and I think it is through that 2002 process that we will make the convergence which you are describing. Obviously that is not reflected in the reports for 2001.

Q297 Mr Chaytor: If we are looking at the plans from 2004–05 to 2005–06, schools' real term per capita funding is up by seven percentage points, FE is up by two percentage points. There is still this huge gap, per funding per pupil/per student in schools is going up at a faster rate than the funding per student in colleges.

Mr Clarke: I will look at the figures which I have not got in front of me as we speak. I think I am right in saying, but I am open to correction, that if you look through the whole CSR and you look at the increased money that has gone into the Learning and Skills Council, much of which goes into FE quite directly, the overall picture is better than you describe but I will look at the figures carefully.⁶

Q298 Chairman: Secretary of State, it has been a good session. I am reminded by your mention of having lunch with Roy Hattersley, when I was his deputy you were partly responsible for the wicked press description because when I was his deputy they used to say "The Labour Party never knowingly under launched", because we launched everything repetitively, and I think you had something to do with that, but Roy Hattersley never knowingly under lunched!

Mr Clarke: I must make it clear that is your remark not mine. I could not possibly associate myself with that, in fact I deprecate it!

Chairman: Thank you very much for your attendance. I enjoyed the session and so did my Committee.

⁵ Ev 50

⁶ Ev 50

**First supplementary memorandum submitted by the Rt Hon Charles Clarke MP, Secretary of State,
Department for Education and Skills**

At the Committee hearing on 7 July I promised to provide details of the work being undertaken on education maintenance allowances (EMAs).

Capita's involvement in the EMA scheme is as the national Assessment and Payment Body (APB). As such, Capita will be responsible for providing national administration services in support of the EMA scheme. These include processing application forms, making payments to students, and operating information services, including a telephone contact centre and a web site.

Capita were selected to run the APB service after a rigorous and highly competitive procurement exercise which was approved by the Office of Government Commerce (OGC). The Department conducted detailed negotiations over several months with three potential suppliers (drawn from an opening list of 14 bidders) before deciding to appoint Capita. In assessing final tenders, we carefully scrutinised delivery plans and took account of track records in other contracts.

We have taken a great deal of care to design the scheme so it can work effectively. The underlying business processes for EMA were designed by the Department in consultation with stakeholders, and were explored with potential suppliers of the APB service before we went to contract.

No other companies are involved in running the outsourced process for EMA. But Capita's role is only one part of the overall programme. In particular, there is a critical role for schools and colleges in determining when weekly payments should be withheld from students and deciding on bonus payments. The Learning and Skills Council has led the establishment of 47 local EMA partnerships to support the implementation of the scheme in schools and colleges, and to promote the scheme locally—particularly to young people at most risk of dropping out at age 16. LEAs have an important role within these in supporting awareness raising amongst year 11 pupils, and working with other local partners to ensure effective delivery of the scheme in schools.

There has been good progress in the implementation of EMA so far. The project received a green light in the OGC gateway four review in April. The Department's relationship with Capita has taken into account lessons from earlier projects such as ILA. In an implementation of this scale it would be naive of me to say that no problems of any kind will be encountered in 2004. Nevertheless, I share David Normington's view that EMA has been taken forward in the right way.

9 July 2004

**Second supplementary memorandum submitted by the Rt Hon Charles Clarke MP, Secretary of State,
Department for Education and Skills**

At the Committee hearing on 7 July I promised to provide details of the Student Loans Company and any outsourcing of its IT operations.

The Student Loans Company (SLC) is a limited company. On 1 April 1996 it was also designated as an executive Non-Departmental Public Body of the former Department for Education and Employment. The Company is now wholly owned by the Secretary of State for Education and Skills and the Secretary of State for Scotland, but the ownership is being reviewed following the transfer of responsibility for student support in Scotland to Scottish Ministers.

None of the SLC's current IT operations and computer systems is outsourced. In 2002 an external consultancy, PA Consulting, was contracted by the SLC to help them build "Protocol", the new national IT system for processing applications for higher education student finance. That contract has now ended. Where necessary, the SLC outsource the handling of overflow telephone calls to an external company, "Response Handling". The Company also outsources some of its data preparation work, and some of its trace and debt recovery work under the old, mortgage style, loan scheme to a number of external agencies.

Following a successful pilot in 2003–04, the Protocol system is being used by all local education authorities (LEAs) to process 2004–05 applications. Progress is being closely monitored and the SLC is working closely with LEAs and the Department to ensure students who apply on time are paid at the start of term.

9 July 2004

**Third supplementary memorandum submitted by the Rt Hon Charles Clarke MP, Secretary of State,
Department for Education and Skills**

During the hearing on 7 July I promised to provide information on a number of issues.

Q 211—*The cost of administering the current school admissions system across the country.*

Expenditure on the administration of admissions and admission appeals is a matter for LEAs. Section 52 budget statements for 2004–05 show that net planned spend on administration for admissions and admission appeals for all LEAs was £46 million. This planned expenditure includes estimated expenditure for statutory consultation and the establishment and maintenance of, and consultation with, admissions forums. It also includes funding delegated to governing bodies of schools that are their own admission authority for expenditure on the administration of admission and admission appeals.

Section 52 statements do not disaggregate budgets for administration of admissions and admission appeals, nor do they distinguish between the primary and the secondary phases.

Q 264—Efficiency Review

The core tables in the Departmental Report, including Annex F on staff numbers, follow formats and conventions prescribed by HM Treasury to ensure consistency across government and with Public Spending Plans. The figures in Annex F are annual full time equivalents calculated by averaging quarterly figures across financial years.

The 2003–04 estimated staff numbers on this basis were 4,590 (including casuals) as shown in the table. In keeping with Treasury conventions, and as explained in the first part of note 2 to Annex F, the DfES figures for 2004–05 and 2005–06 were estimated to be consistent with the then current administrative cost baselines from the previous (2002) Spending Review.

The second part of note 2 records our plans to achieve staff reductions of 1,460 by April 2008 which has been agreed as part of the new 2004 Spending Review settlement. The baseline for this reduction was the October 2003 staff in post figure, which at 4,660 was slightly above the annual average. Against this baseline, the reduction is 31%.

Q 295—Providing help for individual colleges to enable them to improve

All colleges and other providers will benefit from recent initiatives to help them to improve teaching and learning approaches and to strengthen leadership and workforce development.

Support, advice and resources will be made available, by the LSC and the Department's Standards Unit, to individual colleges and other providers to take responsibility for their own self-assessment and to address any improvements needed.

In addition to new action to accelerate quality improvements by targeting those in greatest need of help, two other new developments will help. A new inspection model, based on validation of self-assessment and which will be risk proportionate, together with the introduction of a new quality improvement body, will help to ensure that the improvements in quality are achieved.

Q 297—The FE and schools funding gap

The issue of the funding gap between schools and further education colleges was raised twice in the hearing. Paul Holmes (Q289) referred to differences in funding for 16–18 year olds following similar programmes of learning in school sixth forms and FE colleges, while David Chaytor (Q296–297) commented on the increases in real terms revenue funding per student in schools and funding per learner in further education, which were tabulated on pages 31 and 32 in the Departmental Report. I thought it might be helpful if I clarified our approach to addressing funding differences.

The further education sector caters for learners of all ages from 16 onwards, offering full-time and part-time provision for a wide range of learning opportunities. Funding comparisons between schools and further education are far from straight forward and there are a number of possible ways of looking at this issue. The Government recognises that there is a funding gap between school sixth forms and further education (FE) colleges in the resources provided for students aged 16 to 18 following similar programmes. Our policy has been to “bring up” the level of funding for colleges, as and when we are able to secure the resources to do so.

This was addressed most recently at the 2002 Spending Review which delivered a record funding increase for the FE sector. The Learning and Skills Council (LSC) uses similar funding methodologies to allocate funding to school sixth forms and further education colleges. In the 2003–04 academic year the LSC increased its base rate funding per learning aim on a broadly comparable basis by 3% for school sixth forms and by 4.5% for FE colleges. The vast majority of colleges (those that reach their targets agreed with the LSC) will see a 5% increase in their base rate funding, whereas school sixth forms will receive an increase of 4%. We therefore expect to see a further narrowing of the funding gap as the differences in base rates are reduced.

We have yet to determine funding allocations within the Department following the Spending Review settlement for the Department for the years 2005–06 to 2007–08. It is too early to say what impact the overall settlement will have on the funding gap after 2004–05.

July 2004

Written evidence

Memorandum submitted by the Public and Commercial Service Union (PCS)

INTRODUCTION AND SUMMARY

1. The Public and Commercial Service Union (PCS) is the largest trade union within both the Civil Service and the Department for Education and Skills (DfES). Within the DfES, PCS represents generalist staff from Administrative Assistant (AA) to Grade 6, support grade and specialist staff, and members of the Senior Civil Service (SCS).

2. PCS welcomes the Select Committee's timely inquiry, and is happy to supplement this written submission with oral evidence.

3. PCS remains concerned about the DfES' decision to cut 1,460 jobs, and the impact that this is having and will have on our members and the efficient delivery of public services by the Department.

4. PCS is not opposed to change: we believe that an inefficient and ineffective DfES does not benefit ministers, the public or our members working in the Department. However, our view is the reorganisation of the DfES on the basis of large scale job cuts risks compromising the translation of public expenditure on education and skills into efficient and effective delivery of policy.

5. In his evidence to the Committee given on 7 July 2004, the Secretary of State refers to the DfES as undertaking a substantial change process, which has included consultation with the DfES' trade unions. However, the Committee should be aware that PCS is actively opposing the job cuts amounting to 31% of staff posts in the Department. Our opposition is supported by FDA and Prospect as the other unions recognised by the Department, who share the belief that we are dealing with cuts that will impact on the efficiency and effectiveness of the Department.

6. This submission covers the following issues:

- The inadequate rationale for DfES job cuts.
- The impact of job cuts on the DfES' capacity.
- The implications of DfES job cuts for the education and skills sector.
- The efficiency implications of the impact of job cuts on DfES staff.

THE INADEQUATE RATIONALE FOR DFES JOB CUTS

7. PCS notes the Select Committee has already made it clear that it would be concerned if the effects of the job cuts resulted in a reduction in the efficiency of the Department. The Select Committee has already asked (according to the uncorrected transcript of the 7 July session) what we believe to be the key question in relation to the cuts: "what work will no longer be done?" Will fewer staff have to cope with a rising level of work as well as reduced staffing resources? PCS' view is that the under resourcing of the Department will result in a human cost and increased workloads as well as an increased level of inefficiency that combined will pose a high risk to the successful working of the DfES.

8. We take the view that the Secretary of State's answer to this question was conspicuous in its lack of detail when compared to the very full answers given to other questions. The response to question states that the DfES works through a wide range of other organisations, but this has been the case for some time, and the response to the Select Committee does not provide any more clarity about the future development of the Department than earlier responses to the question when it was posed by the DfES trade union side.

9. PCS has not been able to elicit any answers of substance about how the DfES will compensate for losing roughly a third of its staff: the Department has made much of becoming more "strategic" in how it works, but it already occupies a highly strategic role, and while PCS believes that such a role is appropriate to the Department as the lead organisation within its sector: it still unclear how the organisation of work will be revised and how stopping certain DfES functions will allow the Department to take on a more strategic role.

10. We reflect members' views that the Department's "five year strategy" does not demonstrate how the job cuts across the DfES will result in improved efficiency and effectiveness. This document along with the material explaining the rationale for the job cuts makes no attempt to show how job cuts lead to greater efficiency, although it is claimed that the cuts will "help to reduce the burdens at the front line" without giving any detail to support this statement. Job cuts will not guarantee that public expenditure is used more efficiently or effectively, and we note that the Department has not, despite continual prompting by PCS, produced a risk analysis of the effect of the cuts on front line services.

11. PCS' involvement in consultations to date about the restructuring of the DfES' Directorates has confirmed that restructuring is driven by budgetary concerns and the primary imperative to cut posts across the Department. While staffing levels are important to any consideration of efficiency, they are not the only factor, and issues such as the focus of work; the organisation of work; the structures and culture of the

Department; and ensuring that the Department has sufficient capacity to manage existing work while taking on new areas of work as a result of the Department's recently launched "five year strategy" are also important, and should not be dictated by what appears an arbitrary cut in staffing levels.

12. PCS rejects the assumptions that cutting the jobs of "back office" staff will automatically benefit front line practitioners, and we repeat the call of the Council of Civil Service Unions (CCSU) for a mature debate about the relationship between the centre and local delivery, between the so-called back office and the front line. In terms of securing public funding for education and skills and developing policy and working with partners to deliver that policy, the DfES is very much the front line; it is the key organisation within its sector, and its success or failure will have a profound effect on the effectiveness of the sector. PCS is therefore concerned that a numbers-driven reduction of the DfES' staffing levels will lead to it not been able to maintain a planned role that does not in actuality appear to be greatly different from its current role.

THE IMPACT OF JOB CUTS ON THE DfES' CAPACITY

13. Although the Department's "five year strategy" commits it to "less direct management and service delivery" and sets its role as being the "system designer" this role still requires adequate resourcing. The Department has stressed that it will use ICT to improve services, while benchmarking against public and private sector comparators. PCS notes that it is planning to cut 74 posts in the Division responsible for ICT while also cutting staff by 57.5 posts in its Facilities Management Service (FMS). If ICT can substitute for staff, and the Department staffing has grown in the context of reliance on ICT systems, then staffing cuts that affect the support given to staff using ICT would seem to be a high risk strategy, and demonstrates to PCS that the restructuring of the DfES is driven by a desire to reduce numbers.

14. Policy development in the DfES is entirely dependent on ICT, and PCS is concerned that cuts in ICT provision, which is amongst the best in the civil service, will be felt throughout the Department's policy Directorates. The development of policy now relies on the capacity generated by ICT to draft, amend and transmit policy documents, and face to face contact with partner organisations is augmented by email traffic. Any cuts that threaten this capacity will result in a Department that is less able to direct the use of public funds through policy development, and this we believe is a matter of considerable concern. Although the Department has stated that it wishes to see a rationalisation of funding streams, it will be the case that the administration of funding streams will continue to depend on ICT, and we believe that cuts to ICT capacity amount to cuts in the infrastructure that supports the Department's work and therefore the work of the wider sector.

15. Areas such as schools policy, Children's Trust and the development of skills policy require the Department to be able to set frameworks for future delivery. While choice is key to the Government's education and skills strategy, the Department has cut jobs in the Schools Diversity Division, reducing its capacity in making policy that deliver genuine choice within the education and skills system. PCS is also concerned that cutting DfES regionally based posts will affect the implementation of Children's Trusts, which are a key policy development.

16. Members working in the Department's regional teams have voiced their concern about the effects of the job cuts on the programme, and PCS shares their concerns about work loads and the impact of the cuts on the efficiency of developing what will be the keystone of the children's services that are now the Department's responsibility. The issue surrounding the resourcing of Children's Trusts exemplifies how the development of policy, how the role of being a "systems designer" is still predicated on adequate resourcing, and how the job cuts have already impinged on those responsible for implementing a crucial policy initiative before it can be passed to the DfES' partners.

THE IMPLICATIONS OF DfES JOB CUTS FOR THE EDUCATION AND SKILLS SECTOR

17. PCS contests, on the basis of members' experience, that undertaking less direct service delivery provide an adequate rationale for the job cuts; the DfES is no longer the DfEE or the old Employment Department with their large operational arms. The DfES does not undertake the direct delivery of the overwhelming majority of the public services for which it is responsible, and PCS is therefore sceptical about the implication that moving away from direct delivery is a radically new strategic development.

18. The role of the DfES dictates that it works through and with a range of other organisations from Local Education Authorities (LEAs) to its sponsored Non Departmental Public Bodies (NDPBs), and it is already clear that working with partners in this way is both labour and time intensive, and perhaps more so than if the Department had direct control of the functions undertaken by its partners. Working with other organisations requires adequate resourcing as a precondition of success, denuding the centre of the sector of resource will not benefit "front line" organisations within the sector.

19. Allied to this concern is our concern about the capacity of organisations such as the Learning and Skills Council (LSC), Higher Education Funding Council (HEFCE), Student Loan Company (SLC) and the Teacher Training Agency (TTA) to undertake areas of work currently undertaken within the Department. This is not to slight the commitment of the staff in these organisations, many of whom are PCS

members, but to stress that moving work into organisations without ensuring that they have the resources and workforce capacity to undertake the work successfully must put the successful delivery of services at risk.

20. PCS has highlighted the issue of the capacity of organisations that will receive work from the DfES and we are not reassured that the transfer of work offers any significant efficiency savings, efficiency improvements nor guarantees the quality of the services and functions to be transferred. Our concerns are fuelled by the Permanent Secretary's statement (to the Select Committee on 16 June 2004) that the DfES is looking for a 15% reduction in the administration costs of all of its NDPBs. This suggests that these organisations will be required to do more as the DfES attempts to do fewer things, but with significantly reduced resources. Again, PCS believes that the transfer of work is motivated by the imperative to cut the number of DfES staff rather than as a result of an over-arching structural reorganisation of the Department and its relationship with its partners.

21. Alongside cuts to the funding of DfES NDPBs, the Department is also looking for Local Authorities (LAs) to streamline their administrative systems, which will impact on the resourcing of organisations that will carry a key responsibility for school based education. PCS is concerned that while cuts at the centre could possibly be offset by increasing capacity at local level, the Department's strategy will also impact on administrative capacity at a local level. While this may not be seen as the "front line", we believe that LAs form an integral element of the administrative systems that are a pre-condition to the successful delivery of any education and skills services. We do not believe that cutting administrative resources, particularly when new systems are being introduced, will enhance the capacity of the education and skills sector to deliver.

THE EFFICIENCY IMPLICATIONS OF THE IMPACT OF JOB CUTS ON DfES STAFF

22. PCS has not been reassured that the Department actually developed an over-arching plan for change before announcing the job cuts, and we believe that we are dealing with a post hoc rationalisation: the job cuts came first, and they are driving reorganisation across the Department. From PCS' perspective, the restructuring is driven by the requirement to cut jobs, and not on the basis of a restructuring plan that was subject to consultation during its development. From the perspective of PCS members, seeing their jobs cut on this basis has undermined their commitment to the Department and has damaged morale.

23. The proper use of public funds for education and skills, in our view, requires that the DfES is properly resourced, and that any reorganisation of the Department takes place on the basis of accepting that while delivery of education and skills involves partnership between organisations, there is a need to ensure the DfES, as the centre of the system, is capable of undertaking its role as the centre of a complex sector. We believe this requires an organisation that is properly resourced to deliver its agenda so that the remaining DfES does not have to cope with excessive work loads. Such a situation is intrinsically inefficient as DfES staff become locked into coping with uncontrolled work loads at the expense of innovation and the development of policy that allows public money to be spent effectively and efficiently.

24. PCS accepts its members' concern that the reduction of roughly a third of the Department's staff risks compromising its leading role and will be detrimental for the services that depend upon policy developed by the DfES. An inefficient centre does not, in our view, promote efficiency across a large and complex sector, which will ultimately remain dependent on the capacity of the Department to introduce and develop policy.

25. PCS members have stated that they are concerned that work loads will rise, and indeed are already rising, across a Department that has for some time been in the position of centrally administering rising programme expenditure without adequate administrative resources. As a result, the Department is currently working at capacity, training and development are being squeezed by immediate work pressures and anecdotal evidence confirms our view that work loads are rising and there is a pressure on work/life balance across the Department. PCS believes that the job cuts within the Department will further exacerbate the situation in which rising programme funds are administered and policies developed on the basis of inadequate administrative funding. This is a situation that adds to the potential for failure, and add to the risk of recurrence of failures such as Independent Learning Accountants (ILAs) and the E-university.

26. Concerns must also be raised about the impact of the proposed cuts on an aspect of the Department's capacity that is difficult to quantify, but which is very important to its effectiveness. The brunt of the cuts fall at Administrative Assistant (AA) to Higher Executive Officer (HEO) level and the established main operational grades of the Department. We regard this as diluting the pool of experience within the DfES, its 'corporate memory' that can be brought to bear on issues and problems. Reducing the grades responsible for the day to day delivery of services means that issues are more likely to become problems as experienced staff are lost to the Department through its release schemes and others cannot transfer their experience to new roles within a much smaller organisation.

27. PCS believes that this operational level of the Department is crucial: it discovers potential problems and puts forwards approaches to them, allowing more senior staff to concentrate on strategic work. It is our belief that cuts at this level will actually undermine the Department's strategic capacity as under-resourcing

at AA to HEO levels will mean that more senior officials will be diverted away from strategic policy considerations to dealing with other pressing issues, thereby diluting their role and offering poor value for money for the tax payer as lower level work is undertaken by more highly paid staff.

28. PCS has also raised concerns about the Department's reliance on consultants funded from programme funds as a substitute for adequate staffing in the Department. We accept that there are occasions when the use of consultants is appropriate, but we believe it is inappropriate to divert programme funds away from delivering policy as an expensive way of compensating for the Department's lack of internal capacity. PCS has raised the issue of the use of consultants in the Department over a number of years, and we have noticed a rise in the use of consultants as a result of the reorganisation of the DfES.

29. Anecdotal evidence from Schools Directorate suggests that consultants have not added value to the reorganisation processes, and the role of consultants in the preference exercise undertaken by Schools Capital and Building Division (SCBD) has not demonstrated that their involvement has led to outcomes in terms of the preference exercise that does not represent an improvement on other preference exercises despite a considerable outlay from programme funds for their services. This example has intensified our fears that an inadequately resourced Department will turn to consultants to undertake work that can be undertaken as effectively and far more cheaply by DfES civil servants. We believe this is an inappropriate use of public funds, and risks bringing about a situation in which public funds do not reach the front line but are diverted to meet expenditure on consultants.

September 2004

Memorandum submitted by Capita

EDUCATION MAINTENANCE ALLOWANCES

Capita responded to the invitation to tender issued by the Department for Education and Skills for a partner to provide the national Assessment and Payment Body (APB) service in support of the Education Maintenance Allowance (EMA) scheme.

In bidding for a contract of this nature Capita undertakes a very robust process to ensure that the opportunity is compatible with the Company's capacity, competencies and experience; to test the commitment and capacity of the client and the achievability of its requirements; to ensure the commercial viability of the potential contract; and to test whether Capita can add value to the programme. In the case of the EMA APB Capita was, and is, of the opinion that this was an appropriate opportunity to bid and that the requirements are consistent with Capita's strengths.

Capita was selected by the DfES through a robust and competitive process.

Capita's responsibilities as APB are to process applications; make payments to students following confirmation of attendance from the learning centre, requests for bonus payments or instructions to withhold payments from learning centres; operating information services for stakeholders including a contact centre and web site; and providing management information for the Department. Capita's role is only part of the overall EMA programme. The roles and responsibilities of Capita, the Department, the Learning and Skills Council, schools and colleges, and students and their parents/guardians are clearly defined by the Department.

The project received a green light in its Office for Government Commerce (OGC) Gateway Four review in April 2004. Implementation including registering students and the commencement of assessments of applications is progressing well. Capita is confident that it will continue to meet the Department's specifications and requirements in order that the successful implementation of the EMA Assessment and Payment Body services will contribute to the success of the overall programme.

4 August 2004